Accountancy

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The Exhaustion of Public Revenue

Financial Control in Industry

Directors' Travelling Expenses

THE SOCIETY OF INCORPORATED ACCOUNTANTS

MAY 1950 *ONE & SIXPENCE*

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Professional Notes

National Income Statistics

THE STOUTEST AND HEAVIEST CONTENDER IN THE SPRING WHITE PAPER CHASE was *National Income and Expenditure of the United Kingdom, 1946 to 1949* (Command Paper 7933, His Majesty's Stationery Office, 1s. 6d. net). But *Economic Survey for 1950* (Command Paper 7915, 1s. net) came first and stole most of the publicity. Of two other White Papers, *United Kingdom Balance of Payments, 1946 to 1949* (Command Paper 7928, 4d. net) and *Financial Statement, 1950-1951* (House of Commons Paper 47, 9d. net), it may be said that the former, unlike counterparts in previous years, aroused some restrained enthusiasm, but the latter was nowhere a favourite. These two White Papers are treated later in this issue.

The White Paper on National Income showed that the gross national income in 1949 was £11,201 million. This was £498 million more than in 1948, and £418 million of this increase was in the current output of businesses (reckoning, as the White Paper does not do, the whole increase in inventories, whether due to changes in prices or in physical quantities in business output). The £11,201 million of national income in 1949 and the £10,703 in 1948 were distributed as follows:

TABLE I

	1948 (£ million)	1949 (£ million)
Wages	4,050	4,280
Salaries	2,140	2,250
Pay and allowances of Armed Forces	246	245
Farming incomes	258	283
Professional earnings	170	172
Profits of sole traders and partnerships	735	745
Rent, dividends and interest to persons (excluding interest on the national and other public debt)	865	874
Public authorities' income from property*	146	148
Tax provisions on undistributed profits*	743	699
Additions to reserves of businesses and public enterprises*	575	530
Depreciation provisions*	775	975
	10,703	11,201

* Not part of "personal incomes."

The virtual constancy of the item "rent, dividends, and interest" contrasts with the increases in both wages and salaries. Again in contrast with those increases, trading profits fell from £1,685 million in 1948 to £1,590 million in 1949, though it must be remarked that these figures are struck after allowing an increase of £200 million in depreciation allowances and a decline of £325 million in the writing-up of stocks to take account of increased prices.

In 1949 the national income was disposed of, in the main categories of expenditure, thus:

TABLE II

	£ million
Personal consumption	6,962
Public authorities' current requirements	1,979
Gross capital formation	2,260
	11,201

Personal incomes amounted to £10,166 million last year, against £9,754 million in 1948. These incomes comprise all those not marked with an asterisk in Table I, together with transfers of income to persons from the Government and other public authorities (including interest on the public debt) amounting to £1,317 million in 1949 and £1,290 million in 1948. Of personal incomes, no less than 27 per cent. was absorbed last year in direct and indirect taxation. In 1938 the corresponding figure was 19 per cent.

A further table, composed from one in the White Paper, will be of particular interest to accountants.

TABLE III

Personal Income in various ranges £	Number of Incomes '000's		Total Income before Tax £ million		Proportion of 1948 income retained after income and sur-tax Per cent.	
	1938	1948	1938	1948	1938-39 rates	1948-49 rates
Under 250	*	*	2,467	2,439	99.6	98.9
250-499	2,000	8,650	679	2,929	97.5	94.6
500-999	670	2,295	455	1,519	91.6	85.3
1,000-1,999	224	545	304	730	85.5	74.4
2,000-9,999	98	209	360	729	71.9	56.9
10,000 and over	8	11	175	195	45.6	24.1

* Not known.

The *Economic Survey* assumes, perhaps rather conservatively, an increase of business productivity in 1950 of $2\frac{1}{2}$ per cent., compared with rather more than 4 per cent. last year. On this basis, and allowing for expected price increases, the national income will be £11,680 million, against £11,201 million in 1949. If the planned amount of capital expenditure, roughly the same as last year, is to be reached, it is estimated that savings, other than savings made by the Government on the public behalf, will have to increase by £228 million. Further, for this to happen, savings from personal incomes will have to be "somewhat greater" than in 1949—when net savings were only 1.7 per cent. of these incomes. If savings fall short of the estimate and investment is not cut, inflation must result.

Britain's External Accounts

The country's deficit on current account with the rest of the world was the same last year as in 1938, which is usually taken for statistical purposes as the pre-war "norm" (though it was somewhat subnormal so far as concerns the balance of payments). Last year's deficit was only a tenth of the post-war peak of £700 million, reached in 1947. But these comparisons, while they quite properly reflect the great improvement of the past three years in our international trading position, hide its unsatisfactory features and the dangers and difficulties lying ahead.

The recovery since 1947 is fairly evenly divided, in absolute figures, between visible and invisible trade. In comparison with 1948, the year 1949 showed virtually no change in the favourable balance on invisible items—despite greater military expenditure abroad—and a small improvement in the deficit on visible trade.

UNITED KINGDOM BALANCE OF PAYMENTS (CURRENT ACCOUNT)

	1938	1946	1947	1948	1949
PAYMENTS £ million					
Imports	835	1,105	1,528	1,770	1,970
Government expenditure overseas (net) . .	16	283	230	94	145
Shipping. . . .	80	137	165	174	189
Interest, profits and dividends . .	30	84	98	109	112
Films (net) . .	7	17	14	10	6
Travel	40	42	76	66	78
Total payments	1,008	1,668	2,111	2,223	2,500
RECEIPTS £ million					
Exports and re-exports . .	533	886	1,093	1,554	1,790
Shipping. . . .	100	155	194	250	277
Interest, profits and dividends . .	205	153	171	174	168
Travel	28	12	21	33	43
Miscellaneous invisible items . .	72	92	32	107	152
Total receipts	938	1,298	1,511	2,118	2,430
Balance on visible trade	−302	−219	−435	−216	−180
Balance on invisible trade . .	+232	−151	−165	+111	+110
Balance on current account . .	− 70	− 370	− 600	− 105	− 70

The United Kingdom current account with the dollar area was in deficit in 1949 to the extent of £275 million—a huge gap, even though it was about half as big as the chasm on this account in 1947. Miscellaneous capital transactions with the dollar area required a further £5 million last year. In addition, net rest of the sterling area took a net amount of £31 million from the London pool of gold and dollars to settle its deficit with the dollar area. (This figure of £31 million, owing to the way the statistics are compiled, is really under-assessed, the deficit of the United Kingdom with the dollar area being correspondingly exaggerated.) We also had to pay £70 million of gold and dollars on behalf of the whole sterling area to other (non-dollar) countries. Thus the grand total of gold and dollars which we had to find last year was £381 million. We found £330 million of it in Marshall Aid and £33 million from the Canadian credit.

When are "Investments" not Investments?

Our excessive willingness to send abroad "unrequited" exports and "unrequited" gold and dollars, as well as the failure of international trade to take on a multilateral pattern, are evident from these figures. Since our overall deficit on current account was £70 million, but our adverse balance with the dollar area was £275 million, it follows that we had a surplus with non-dollar countries of £205 million. So far from our being able to offset this surplus against the current dollar deficit, we supplied gold and dollars not only to the amount of the whole of that deficit, but also to the extent of a further £106 million to non-dollar countries with which, in the aggregate, our current account was favourable.

What we have to show for the £311 million, the difference between the total of gold and dollars supplied by us on behalf of the whole sterling area (£381 million) and our own adverse balance (£70 million), is statistically represented by "investments" or increases in "capital assets." But investment or capital asset is here a purely statistical term, covering the balancing item in the capital account. Only a part of the £311 million is made up of investments in the true sense of holdings abroad which will earn interest and which could be liquidated. The rest is lost to this country for good and all. These nugatory items include funds taken abroad by emigrants and drawings by European countries under the miniature "Marshall Aid" provided by us within the wider American scheme. It would make the balance of payments statistics more meaningful if "investments" were broadly divided into estimates of (*a*) capital assets in the true sense, and (*b*) amounts which should be written off as nugatory.

Despite the more favourable showing of the trade figures for the first quarter of this year—the sterling area at last achieved a surplus on current account with the dollar area ($40 million) and the gold and dollar reserve rose by

$296 million to $1,984 million—the *Economic Survey for 1950* is justified in stating that "the balance of payments appears certain to remain the central economic problem in 1950, and for many years ahead."

Accounting Mission to America

The first thorough study by British accountants of American accounting, costing and statistical methods as an aid to industrial management will be made by the mission which has just been sent to the United States by the Anglo-American Council on Productivity. During its stay of two months in the United States, the team, the proposed formation of which we announced in our issue of last January (page 1), will visit large and small plants representative of many different industries. The costs of the inquiry will be borne out of "Marshall Aid" dollars.

The accounting mission will investigate how far "control figures" assist the Americans in reaching high productivity. It will examine the accounting, costing and statistical information, both internal and external, required by American executives at all levels, and will pay particular attention to the speed and form of presentation. The techniques used in building up management returns—including budgetary control, standard costs, stock control, production control and financial and cost accounting—will be studied in detail.

The leader of the team is Mr. Ian T. Morrow, C.A., F.C.W.A., and its secretary is Mr. Stanley J. D. Berger, M.C., F.C.I.S. Mr. Geoffrey A. Culverwell, A.S.A.A., A.C.W.A. (of the Road Haulage Executive), who is one of its members, is an Incorporated Accountant. Most of the thirteen members are industrial accountants, but some are production engineers or managers.

The mission has received the support of all the main accounting bodies, and their members, particularly those engaged in industry, will await the report in the expectation of some absorbing reading and useful practical guidance.

No More Stanleys

An exhaustive inquiry by Sir Edwin Herbert's Committee on Intermediaries has shown that there are no other Sidney Stanleys lurking round Whitehall and Park Lane—nor even any lesser emulators of that inimitable "intermediary." Only 29 "contact men" were discovered—apart from the special class dealing with the Inland Revenue, upon whom we comment in the succeeding note. Thirteen of the 29 specialised in aliens' business; of the remainder, only one acted whole-time. They all seemed to be rather small fry, and their activities were not sufficiently important or disturbing to lead the committee to recommend that any general restriction should be placed upon them.

Apart from members of the recognised professions, who were explicitly outside the committee's terms of reference, most of the work of assisting individuals and businesses in their sometimes complex relations with Government Departments is done by trade associations and voluntary organisations. The committee comments on this work, not with criticism but with approval.

The recommendations of the committee are necessarily not very far-reaching, since its factual findings on the abuses of contact men are negative. Government Departments should be continually overhauling their control systems, should be more accessible to the public, should make their instructions for the use of outsiders intelligible and up to date. Where a person, not member of a recognised profession acting as such, approaches a Department on behalf of another and appears to be doing so for reward, he should be invited to declare the capacity in which he is acting, and if his answer is unsatisfactory it should be open to the Department not to conduct business with him.

The most significant part of the report is hardly the evidence painstakingly collected by the committee or its inevitably colourless recommendations but the illuminating figures it gives about licences and controls. Applications received annually by the main Departments run into hundreds of thousands, or even millions. Aggregating from an appendix of the report applications for many different kinds of licences and the like, we reach the following annual figures for the most important Departments, ignoring those, like the National Assistance Board, which, in the committee's words, deal with "clients," or at least with "claimants," rather than with "applicants":

Ministry of Supply . .	. . 650,000
Board of Trade . .	2,201,000
Ministry of Works . .	. . 317,000
Ministry of Agriculture	1,292,500
Central Land Board and War Damage Commission	. . 855,000
Ministry of Fuel and Power	6,760,000 *

* Includes 2,500,000 applications for extra domestic coal and 4,200,000 for petrol.

The committee points out that the enormous number of applications means that they are mostly considered by very junior officials. These conditions could lead to irregularities, but "although . . . the existence of a vast mass of regulations, the bulk of which are unknown to the ordinary citizen, and some of which do not commend themselves to his sense of justice, has lowered the standard of law observance, we do not believe that any serious inroad has yet been made into the standard of morality governing the relationships between members of the public and Government Departments." It was no part of the committee's functions to comment upon the effects of the network of controls upon business and Government efficiency, as apart from morality.

The committee's report is published as Command Paper 7904, obtainable at His Majesty's Stationery Office for 2s. 6d. net.

Unqualified "Tax Experts"

The report of the Committee on Intermediaries contains a section on the Inland Revenue. There are about 1,000 persons known to be "practising as repayment agents"—seeking refunds for their "clients" of excessive deductions under P.A.Y.E., or tax over-paid for other reasons. The existence of the repayment agent can be traced as far back as 1869. About half the existing repayment agents are auctioneers, estate agents or valuers. Less than a quarter are probably minor employees of solicitors or accountants making pocket money in their spare time. In the remaining miscellaneous group are some 20-25 former officials of the Inland Revenue, including about 20 retired Inspectors of Taxes.

There is also another category of unqualified persons—the income tax advisers, grouped separately by the

committee, though they are largely the same " experts " as the repayment agents. It is inconsistent with this classification, made by the committee itself, and manifestly contrary to the facts, to state, as the report does, that " scope for unqualified assistance exists almost wholly in the field of repayment claims." How many small traders have all their income tax affairs conducted by unqualified " advisers " ?

" Sometimes," remarks the committee, rather blandly, " the services supposed to be rendered by the unqualified agent are of poor quality." There is usually little the local tax office can do, it continues, " beyond paying specially critical attention to cases submitted by unqualified agents who are known to be unscrupulous or incompetent." ("Agents " in these passages presumably means both repayment agents and tax advisers.) Particulars of unqualified persons known to be practising regularly as repayment agents are reported to head office, and from there are circulated to all local offices in a consolidated list.

> As we understand it the Board and its officers feel happier if taxpayers who are unable or unwilling to handle their own tax affairs place those affairs in the hands of a member of a recognised profession. Professional standards and discipline are in themselves a guarantee of integrity. In practice, however, the activities of the agents who are not members of recognised professions do not cause great difficulty to the Inland Revenue, and the lack of a professional qualification by no means always implies that a man has technical or other shortcomings. So far as the Inland Revenue is concerned, this is not a new question. The main principles of the Board's work were settled many years ago. Once income tax became a serious matter for the taxpayer the recognised professions took on the vast bulk of assisting people with their tax affairs. Those affairs create no obvious openings for unqualified or unscrupulous intermediaries, and there have been no developments recently to alter that position. Moreover, the service which the unqualified agent offers to his client is the avoidance, or recovery, of overpayments in accordance with recognised, if complicated, rules. He cannot purport to secure preferential or special treatment. All that he can offer is knowledge and skill, and the sole possibility of abuse lies in his not possessing what he offers.

Apart from the committee having in this passage limited its purview to the repayment agent, to the exclusion of the tax adviser, it seems, in company with the Inland Revenue, to be rather complacent about the serious situation produced by the activities of the 1,000 or so unqualified " experts." These people are subject to no disciplinary sanctions and offer their clients none of the professional safeguards. Perhaps they " do not cause great difficulty to the Inland Revenue." It is more important to consider their usefulness to the public. Certainly the lack of a professional qualification " by no means always implies that a man has technical or other shortcomings." But would the committee or the Inland Revenue aver that technical shortcomings (if not the other kind) less usually accompany the lack of a qualification than its possession ?

Errors in Audited Accounts

What happens when accounts which have been certified by the auditors and approved at the general meeting contain, as it later transpires, an important error which has escaped attention ? This question is suggested by the astonishing announcement by *Staveley Coal and Iron* that in the published accounts for the year to June 30 last the market value of the quoted investments was understated by £834,520. The company's circular letter puts the position to rights, but is this enough ? Should the letter itself be certified as correct by the auditors themselves ? Not until six months after the annual general meeting did the error come to light. This unfortunate incident makes it appear feasible that a company could produce a wholly misleading picture of its investments position and correct the picture some months later without fear of official reproach. It may also arouse questions in the minds of the lay-public about the efficacy of the professional audit in general.

For those who are concerned with examining the valuation of investment portfolios for balance sheet purposes it is worth while recapitulating the reason for the error in this instance. The company has large holdings of Preference and Ordinary stock in *Doncaster Amalgamated Collieries*. During the financial year a sum of 6s. 8d. per £1 unit of each class was repaid, and this repayment was inadvertently treated as a reduction in the total number of units held: the market values were accordingly computed on the reduced number. In fact, the units were dealt in as 13s. 4d. denomination. This pitfall may also exist where there are bonus issues, and it is a defect of the Stock Exchange Daily Official List that no indication is given whether a quotation is " cum " or " ex " bonus. If a company has declared a 100 per cent. scrip bonus it would be possible to make the error of over-valuing a holding in it by 100 per cent.

Measurement of Productive Efficiency

The Incorporated Accountants' Research Committee has formed a sub-committee of members of the Society of Incorporated Accountants to undertake research work into the Measurement of Productive Efficiency. The chairman of the sub-committee is Mr. F. Sewell Bray, F.C.A., F.S.A.A., who invites all accountants who have any experience in this type of inquiry, or who have contributions or suggestions to offer, to communicate with him at Old Serjeant's Inn Chambers, 5, Chancery Lane, London, W.C.2.

Certified Accountants

There were 7,664 members of the Association of Certified and Corporate Accountants at the end of 1949, of whom 2,378 were Fellows and 5,286 Associates. During the year 302 new members were admitted. Students on the register at the end of the year numbered 9,951. For the June and December examinations, 3,944 candidates sat and 1,394 passed.

Census of Distribution—Advisory Committee

A committee has been appointed to advise on the taking of the Census of Distribution next year. The chairman of the committee is Mr. J. Stafford, of the Central Statistical Office. Like the advisory committee on the Census of Production, which was appointed a few weeks ago (see ACCOUNTANCY, April, 1950, page 113), this new committee has only one member who is a qualified accountant. He is Sir Richard Yeabsley, C.B.E., F.C.A., F.S.A.A., a Council member of the Society of Incorporated Accountants. There are nineteen other members of the new committee.

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The Annual Subscription to ACCOUNTANCY *is 17s. 6d., which includes postage to all parts of the world. The price of a single copy is 1s. 6d., postage extra. All communications to be addressed to the Editor, Incorporated Accountants' Hall, Temple Place, Victoria Embankment, London, W.C.2.*

The Exhaustion of Public Revenue

THE PUBLIC REVENUE IS EXHAUSTED. That is the salient conclusion to be drawn from this year's Budget. If taxes had been left exactly as they were in the financial year that has just passed, their yield would have been down by some £20 million. Even the expected increase in this calendar year's national product, too cautiously put at £500 million in the *Economic Survey for 1950*, will bring in nothing more to the total of taxation. Only an inflationary upsurge in prices, devoutly to be avoided, would expand the revenue. This is the consummation reached by an economy which gives up nearly 40 per cent. of its net national income in local and central taxation.

It is evident, also, that no practicable re-shuffling of taxes would have increased this year's yield to the Exchequer, put at £3,668 million. At this stage of things a rise in any tax would be likely to depress the national product, the fount from which all tax payments flow. On economic grounds alone, leaving aside the political factors which must have influenced Sir Stafford Cripps in framing his sterile Budget, there was no scope for any extra taxation in any part of the fiscal field. The Chancellor did, indeed, almost (but not quite) admit that this was so. He opened an enfeebled Budget, listlessly devised. Casting around in waters so obviously stagnant for some way of lightening the load of income tax, he decided upon an increase in the tax on petrol. All that can be said for this change is that if £73 million a year had to be obtained in new taxation it is difficult to think of any other tax that would have had less deleterious effects. But that is negative approbation indeed.

The rise in petrol prices will have adverse repercussions throughout the economy. Just when road transport is proving how, over a wide range of activity, it can bring real help to British industry, it is to be prevented from playing that part—or, at least, seriously hindered. The purchase tax on commercial cars, bringing in £11 million a year, will hamper it still further. The veiled encouragement of the national railways which the petrol tax represents will be dearly paid. Still, it seems to us to remain true that the raising of £73 million a year in any other way would have had even worse consequences.

But was new taxation really necessary? Given the exhaustion of tax revenue and assuming its total must be no lower than the enormous figure of £3,668 million at which it is estimated, Sir Stafford could have given no tax remissions, in any direction, without some new taxation. There are, we feel, few to contend that a reduction in income tax on personal incomes should not have been made (though some would have limited the reduction to earned incomes). Some people maintain that the "incentives" argument for reduced direct taxation is not as strong as it was a year or two ago, but if this is true at all it is probably only true of those whose incomes are by way of profits. For those assessed under Schedule E the incentive effect of a lower income tax seems to us to remain important. Moreover, the reduction must tend to place some restraint upon demands for wage increases, even though it may not do very much to prevent what is picturesquely called the "great thaw." No doubt there is room for argument about whether larger allowances would have been better than the reductions made by the Budget in the rates of tax in the lower zones, though these reductions have the great advantage that their import is largely upon the marginal rate of tax and that they therefore encourage overtime. There seems to us much less room for the plea that family allowances should have been granted to every first child: this would have had less effect upon wage demands and no incentive effect at all (no such effect, at least, in industry!). But leaving aside the precise manner of its passing, the handing over of £82 million a year to income tax payers, very largely wage and salary earners, is in itself a move required by our present exigencies—a modest move, but certainly one in the right direction.

If, then, the reduction in income tax was entirely justified—was, indeed, too moderate by half—the inelasticity of the revenue implies that only a decline in the total of tax demanded by the Chancellor could have avoided the petrol tax or some tax of the same kind, probably a worse one. No responsible person would suggest that such a decline should have been brought about by sacrificing the "overall" balance between revenue and expenditure achieved by Sir Stafford. Any deficit financing at this stage would be even more dangerous than it was three or four years ago. No, the decline could have come about only by cutting State expenditure.

This is where the Budget fails: Government expenditure, far from subsiding this year, mounts still higher by £47 million. There is still no conviction in high places that the State must accept the full implications of the economies of scarcity, just as individuals have to do.

Surely the facts of this Budget prove that there will be no escaping State economies. "Taxable capacity" has in the past always been a handy theoretical concept, useful in rather generalised discussions, but always incapable of being measured. Now, events have measured it for us. We have touched full taxable capacity: having touched it, we should move away from it as quickly as we can. There is no sense and no statesmanship in straining the public revenue to the point of exhaustion.

Capital in Small Parcels—The Accounting Investigation

The article "Finance for Industry" which appeared in our issue for February, 1949 (pages 35/36), described the part played by the Industrial and Commercial Finance Corporation in providing capital for industry. The Macmillan Committee, reporting in 1932, stressed the difficulty and costliness of raising medium and small sums of long-term capital. The I.C.F.C. was set up in 1945 to fill this "Macmillan Gap" in the British capital market by providing long-term finance in small amounts, ranging from £5,000 to £200,000.

Our contributor has studied the Corporation's methods for examining the accounting aspects of applications for loans. Apart from its general interest to accountants, his survey may be of value to would-be borrowers or their accountants as an indication of the kind of information the Corporation requires.

[CONTRIBUTED]

THE ORDINARY ISSUING HOUSE DEALS WITH A COMPARATIVELY small number of operations per annum and may do little or nothing to keep *au fait* with the detailed development of the companies for which it has helped to provide long-term finance. In contrast, the Industrial and Commercial Finance Corporation handles a large number of inquiries every year—it has now something not far short of 300 names on its books in addition to many more applications received and often investigated—and it normally expects information from each concern monthly.

One important result is that the I.C.F.C. can afford to employ full-time experts in most lines. The applicant for accommodation is expected to submit a statement of his requirements, the nature of the business, at least one full set of accounts and a statement of turnover and profits for a series of years. These, with certain other particulars, form the basis for a first "vetting" of the proposal by the Corporation's examination department. If after this "vetting" the management considers it desirable to proceed further, it sends the relevant experts—accountants, engineers, market research specialists—to obtain whatever information is desired or to make any suggestions as to finance that are deemed necessary. If it is decided to proceed with the advance, a plan is drawn up by the "loan" department for discussion in conference and presentation to the Board or an authorised committee after agreeing the main terms with the applicant.

It is obviously impossible to go into the details of the investigations conducted by the experts; no attempt is made by the Corporation to lay down a form of inquiry which will cover every possibility. None the less a substantial measure of standardisation is essential, and the Corporation's accountants certainly find it convenient to adhere as closely as is reasonably possible to a standard form. Even here, however, it is evident that information which it would be eminently reasonable to require from a concern which borrows in units of, say, £100,000 may be much more than can be expected from one which applies for only a few thousand pounds. In particular, in very small concerns such costing system as there is may very well be kept in the head of the managing director, while in the case of director-owned concerns, owing to taxation practice, inquiries may have to be made which would not arise in a company with a wider shareholding.

The accountants' investigation, to be carried out if possible with the co-operation of the company's auditors, whose working sheets afford valuable help if they care to provide them, covers ground which is familiar to anyone responsible for taking any financial participation in industry. The accountants will look into the basis of valuation of assets, including depreciation policy, but with special reference to the existence of undisclosed reserves in the valuation of stock in trade and to any fluctuations in profits which may have arisen from treatment of this item. A careful distinction will be drawn between trade and other debtors and creditors; inquiries will be made regarding normal policy in granting credit and any deviations from this policy. The investigation will cover tax provisions and reserves, taking special cognisance of any large initial allowances and, in the case of companies controlled by five persons or less, the possibility of any liability for sur-tax. Insurance cover, contingent liabilities, guarantees and capital commitments and the order book will be inquired into. Adequacy of working capital is also a matter of prime importance if overtrading is to be avoided. Where there are subsidiary or associated companies, all inter-company accounting will be carefully scrutinised. The Corporation's accountant will be expected to tender a report on the general accounting, stock control and costing methods of the concern. Information about management remuneration is required. It is evident that the method and amount of this remuneration may be of the first importance, especially if the security takes the form of a holding of preference and/or ordinary shares.

The standard form for the analysis of trading and profit and loss accounts contains some twenty items, ignoring totals and sub-totals. Some of these are not applicable in all cases, while sometimes others may have to be added. The principle is familiar. It consists in obtaining first a gross profit, by deducting from total sales the costs of materials, wages and factory overheads, adjusted for stock and work in progress. Then the deduction of general overheads, including management remuneration, gives trading profit or loss. The main items of this account are then analysed in percentages. Financial items are then deducted, to reach net profit before tax. Finally, non-recurring items on both sides are brought in, and tax, dividends and transfers to reserves are deducted. There

seems to be no special item for purely financial "provisions" as distinct from transfers to free reserves. Possibly few concerns could supply this information.

The balance sheet summary analysis follows closely the lines of normal published accounts of public companies, but the stock of finished goods is stated separately from other stock, directors' accounts are given their own special heading and mortgages on fixed assets are clearly stated as a deduction from their gross value.

After the completion of the case, these comparatively simple statements make contact possible with the progress of concerns in which they are interested and to which they are able to offer help both on the development of the business and on how to meet changing circumstances. Naturally, one borrower differs from the next in the service of this kind which he requires and also in the extent to which his affairs demand detailed watching. The Corporation does not undertake unnecessary work. Normally there is no charge for this "after-care."

The methods described, coupled with a considerable degree of de-centralisation in the Corporation and a system of local focus, have made it possible for the Corporation to reduce its cost of "vetting" proposals to substantially below what it would be if outside experts were employed.

Evidently every effort is made to help both commercially and financially a concern to which an advance has been made, but it is of the essence of the idea underlying its formation that the I.C.F.C. should take risks. In fact, in four years it has had to provide no less than £600,000 for bad and doubtful debts, some of which will presumably be recoverable in the long run. This is at least evidence that the requirement that the Corporation should work on commercial principles has been interpreted in a sense favourable to risk-taking. It should, perhaps, be pointed out that however difficult the four years and more of the Corporation's history may have been, they have on the whole been a time of ultra-full employment and rising prices. It seems probable that if and when this tendency is reversed the demand for its services will, if anything, be even greater. That will be a testing time for the Corporation. But at least it has had opportunities for testing its methods and has acquired a reputation for receptiveness to a wide variety of financing proposals.

The Budget

OUR FACTUAL SURVEY IS THE SHORTEST FOR MANY YEARS. No doubt the uneasy balance of power in the Commons has had its effect in keeping proposed changes down to a minimum.

INCOME TAX AND SUR-TAX

Sur-tax rates for 1949-50 and the standard rate for 1950-51 remain unchanged, but the reduced rate relief is increased by sixpence on the first £50 of taxable income and one shilling on the next £200, making the charge on the first £50 at 2s. 6d. and the next £200 at 5s. The maximum effect of the increased relief is £11 5s., reached in the case of a single man whose income is all earned at £500, and in the case of a married man (income all earned) at £538 where there are no children, £613 with one child, £688 with two children, and £763 with three.

The Chancellor emphasised that the effect would be to reduce tax on most overtime to 4s. or 2s. in the £, as compared with 4s. 10d. or 2s. 5d.

The additional relief will be effective for P.A.Y.E. from June 8, 1950, to allow the necessary tax tables to be issued.

A necessary amendment which follows is that the tax on incomes between £135 and £165 is limited to one-quarter (formerly three-tenths) of the excess of the income over £135.

Restrictive Covenants.—The publicity given to the covenants by high executives in return for shares has brought a proposal to charge to sur-tax for 1949-50 onwards any sum paid or valuable consideration given for the undertaking. While retrospective legislation has been brought in before to meet schemes of tax avoidance, it is hardly defensible to apply it to such a payment. It makes business increasingly difficult. If persisted in, it will deprive the recipients of the shares, in the two instances publicised, of some 52½ per cent. of the value of the shares at the date of issue, irrespective of their present value. The Chancellor said that the charge was to be for sur-tax only, although he then said : "In the case of the larger sums this means that over 95 per cent. of them will be payable as tax." That is not strictly correct; the maximum rate of sur-tax is 10s. 6d. in the £, or 52½ per cent. Perhaps the Chancellor had in mind that income tax had already been paid by the company. The Budget resolution on the point imposes a charge of sur-tax only. Or does he intend to treat the benefits as "free of tax" amounts to be grossed? If so, the charge will be 10s. 6d. on each 11s. of the benefits, which, if the benefit is all chargeable at the highest rate of sur-tax, is 95·545 per cent. If they are to be grossed up, we regard the suggestion as objectionable.

Electricity Wayleaves.—The taxation treatment is to be clarified, applying Section 21, Finance Act, 1934, to rents in respect of such wayleaves. The detailed proposals will be discussed in dealing with the Finance Bill in due course.

Northern Ireland Civil Servants.—The superannuation contributions will in future be treated in the same way as in Great Britain.

Industrial Research Associations are to have a measure of relief from tax.

Income Tax Act, 1945.—The option of having the mills, factories, etc., allowances as a transitional measure in lieu of industrial buildings allowance is to be continued for a further (and final) five years, i.e., to 1955-56.

Married Women.—The extent and incidence of income tax is to be varied to give effect to provisions:

(*a*) defining the cases in which, the purposes for which, and the extent to which a wife's income is to be treated as that of the husband;

(*b*) amending the law as to reliefs from income tax in relation to married persons;

(*c*) rendering a woman (and her trustees, etc.) liable in certain cases for unpaid tax assessed on her husband.

Enemy Debts.—Legislation will be introduced dealing with the treatment for tax of recoveries of enemy debts. This will apply to income tax, profits tax and excess profits tax.

Pension Schemes.—A committee is to be set up to consider superannuation and pension schemes for the benefit of employees on retirement under the chairmanship of Mr. J. Millard Tucker, K.C. It will also inquire into the position of members of professional bodies, sole traders and self-employed persons in general, and review the present life assurance relief.

ESTATE DUTY

Provisions are to be introduced to deal with certain methods of avoiding estate duty, e.g., where an interest limited to cease on a death has been disposed of or has determined before becoming an interest in possession; and dispositions *inter vivos* to a relative or certain companies.

In the case of the exemption of works of art, etc., conditions are to be imposed for the retention in the United Kingdom and preservation of the objects exempted.

Budget Estimates, 1950-51

A.—ORDINARY REVENUE AND EXPENDITURE

Estimated Revenue

	£000	£000
Inland Revenue—		
Income Tax	1,388,000	
Sur-tax	120,000	
Death Duties	195,000	
Stamps	50,000	
Profits Tax and Excess Profits Tax	270,000	
Other Inland Revenue Duties	500	
Special Contribution	4,500	
Total Inland Revenue		2,028,000
Customs and Excise—		
Customs	870,650	
Excise	713,150	
Total Customs and Excise		1,583,800
Motor Vehicle Duties		56,000
TOTAL RECEIPTS FROM TAXES		3,667,800
Sale of surplus war stores		35,000
Surplus receipts from certain trading services		85,000
Broadcast Receiving Licences		13,000
Receipts from Sundry Loans		27,000
Miscellaneous (including Crown Lands)		70,000
TOTAL REVENUE		3,897,800

Estimated Expenditure

	£000	£000	£000
Debt Charge			490,000
Payments to Northern Ireland Exchequer			36,000
Miscellaneous Consolidated Fund Services			11,000
Total			537,000
Supply Services—			
Defence—			
Army Votes	299,000		
Navy Votes	193,000		
Air Votes	223,000		
Ministry of Supply (Defence)	65,000		
Ministry of Defence	820		
		780,820	
Civil—			
I. Central Government and Finance	20,336		
II. Foreign and Imperial	80,019		
III. Home Department, Law and Justice	57,751		
IV. Education and Broadcasting	270,051		
V. Health, Housing, Town Planning, Labour and National Insurance, etc.	845,673		
VI. Trade, Industry and Transport	155,072		
VII. Common Services (Works, Stationery, etc.)	73,609		
VIII. Non-Effective Charges (Pensions)	96,125		
IX. Supply, Food and Miscellaneous Services	503,602		
		2,102,238	
Post Office Vote (Excess over Revenue)		641	
Tax Collection—			
Customs and Excise and Inland Revenue Votes		34,370	
			2,918,069
TOTAL EXPENDITURE			3,455,069
SURPLUS			442,731
			3,897,800

* In addition £33 million for Interest of the National Debt will be met from receipts under various Acts authorising such application.

B.—SELF-BALANCING REVENUE AND EXPENDITURE

	£000
Post Office expenditure corresponding to Revenue	172,150
Excess Profits Tax, Post-war refunds (part deducted for tax)	5,700
Total	177,850

1949-50 Out-turn and 1950-51 Budget Estimate

(New (alternative) accounts)

REVENUE ITEMS

Receipts	1949–50 (£ million)	1950–51 (£ million)	Payments	1949–50 (£ million)	1950–51 (£ million)
Tax Revenue*	3,687	3,668	Interest on Debt*	472	470
Broadcast Licences*	12	13	Interest outside Budget	28	33
Sundry Loans (Interest)*	8	8	Post-war credits	17	17
Miscellaneous (including Crown Lands)*	52	45	Other Expenditure	2,780	2,854
Interest outside Budget	28	33			
Housing receipts from Votes	20	20			
Gift from Australia	8	—			
Total Revenue Receipts ..	3,815	3,787			
			Total Revenue Payments ..	3,297	3,374
			Surplus	518	413
	3,815	3,787		3,815	3,787

LOANS AND OTHER NON-REVENUE ITEMS

Receipts	1949–50	1950–51
Surplus Stores*	79	35
Trading Services*	48	85
Sundry Loans (Principal)*	12	19
Miscellaneous*	26	25
Export Guarantees—Repayments ..	1	1
Local Authorities—Repayments	4	8
Coal Nationalisation—Repayments ..	5	8
Total Non-Revenue Receipts	175	181
Excess of Non-Revenue Payments over Receipts	456	420
	631	601
Total Receipts	3,990	3,968

Payments	1949–50	1950–51
Sinking Funds*	19	20
Export Guarantees	1	5
Excess Profits Tax Refunds	15	7
War Damage	111	100
Do., Public Utility Undertakings ..	62	—
War Damage—Burma	9	—
Capital Items in Civil Supply Expenditure	62	65
Loans to Allies, etc., in Civil Supply Expenditure	18	20
Rise in stocks of food, etc.	23	26
Argentine Agreement adjustment ..	−8	—
Advances for Housing, etc.	8	10
Loans to Local Authorities	272	279
Loans for New Towns Development ..	5	7
Loans to Film Corporation	4	1
Town and Country Planning: Issues to Central Land Board	—	10
Coal Nationalisation—Working Capital, etc.	15	26
Overseas Resources—		
Colonial Development	4	8
Overseas Food	11	7
Armed Forces—Housing	—	10
Total Non-Revenue Payments	631	601
	631	601
Total Payments	3,928	3,975

Items marked* shown in the "Above-the-line" account in the old (conventional) accounts (*plus* expenditure items of £36 million (1950-51), £37 million (1949-50) for Northern Ireland and £11 million (1950-51), £10 million (1949-50) miscellaneous).

"Overall" Deficit .. 1950-51 £7 mill. "True Revenue" Surplus 1950-51 £413 mill. "Above-the-line" Surplus 1950-51 £443 mill.
"Overall" Surplus .. 1949-50 £62 mill. 1949-50 £518 mill. 1949-50 £549 mill.

Points in Practice

COMMON-SENSE AND NON-SENSE IN CONSOLIDATED ACCOUNTS

"Poetic Justice with her lifted scale
Which in nice balance, truth with gold she weighs
And solid pudding against empty praise."

Alexander Pope certainly never had any idea that these lines from *The Duncaid* would find a place in such a prosaic journal as ACCOUNTANCY or be applied to such a mundane subject as company law and book-keeping. Nevertheless, the purport of his words would seem to be peculiarly apposite to the presentation of accounts to-day.

Limitations of the Companies Act

Those responsible for drafting recent legislation on company law have without doubt tried, sincerely and laboriously, to safeguard the "ordinary man" from the wiles of the perfidious promoter and his kind. Unfortunately, the greater the effort made to standardise or rationalise by statute the preparation of accounts, the more confusing—and sometimes the more misleading—the result seems to become. The most ardent enthusiast for the Companies Act of 1948 could hardly claim that the end aimed at is being attained without exception. He could scarcely contend, even, that the layman finds a modern set of accounts more informative and intelligible than was a pre-Companies Act set, if prepared by an honest and intelligent board of directors ably assisted by a reputable firm of auditors. The other kind of directors—and one must presume that they exist—will still find loopholes in the Act through which to wriggle.

The writer was inspired to prepare these notes on reading the excellent article by Mr. D. C. Beaton, C.A., in ACCOUNTANCY for March, 1950. In that article, after quoting from the case of *In re Duffy* the important definition of "a liability," Mr. Beaton virtually pleads that the word "liability" should have a different meaning when applied to the Companies Act, 1948, from the connotation it was given by the Court of Appeal. Well done, Mr. Beaton! A little unorthodox, perhaps, but certainly smacking of sound common sense when the word "liability" is related to the treatment of future income tax.

The "Orthodox" Treatment

Let us examine the effects if the strict meaning of "liability" as laid down in the case *In re Duffy* is adhered to when accounts are consolidated upon the acquisition of a business.

A set of consolidated accounts covers a holding company (non-trading) and a single one hundred per cent. subsidiary, which was taken over at, say, June 30, 1949 (referred to as the "date of acquisition"). Both companies close their accounts on December 31.

At the date of acquisition the subsidiary had been trading for six months. When preparing an intermediary set of accounts, to assist in obtaining a take-over figure, it had transferred to a reserve a sum estimated to be adequate to meet the tax attracted by the profits made to June 30. This tax was part of the liability for 1950-51.

According to the Recommendations of the Institute of Chartered Accountants this sum should be treated as a *free* reserve and shown as such in the accounts of the originating company, the subsidiary. This would appear to be in accordance with the ruling in the case *In re Duffy*: the tax was not a legal liability existing in law at the relevant date.

At the date of acquisition the profits and reserves of the subsidiary would have been capitalised. In the consolidated balance sheet of the two companies they would then have formed part of either a capital reserve or goodwill account—which of these two, would depend upon the purchase price in relation to the net assets of the business acquired.

Peculiar Consequences of "Orthodoxy"

Among the reserves falling to be treated in this manner would have been the tax reserve. But surely this reserve is essentially different from the other reserves? It cannot be disputed that the profits of the acquired business to the date of acquisition had attracted tax, and that this tax would have to be paid at some future date. The mere fact that, owing to the peculiar "previous year" basis of British taxation, the actual assessment is not agreed upon and the sum does not become due until possibly fifteen months later, does not in any way lessen the eventual "liability."

When a prudent business man purchases a business, he calculates the purchase price upon the net worth to him, and in arriving at that net worth he takes into account any accruing liabilities.

If, however, the accounting has been as outlined, it will be found that while the accounts of the subsidiary for the subsequent year will show the tax reserve available for absorbing the tax charge for which it was created, no such reserve will be shown in the consolidated accounts. In these accounts the reserve will have been absorbed into the heading "capital reserves" or "goodwill."

The result, therefore, seems to be that in the consolidated accounts it will be necessary to charge against the profits of one year the tax of two years—both the tax which in the subsidiary's accounts has been charged against the free reserve there shown and also the new reserve for future tax now created in the subsidiary accounts.

This treatment might, to say the least of it, occasion some peculiar happenings, such as throwing the consolidated profit and loss account into debit and the uninitiated shareholders into a panic!

The Common-sense Alternative

It is suggested that a problem of this nature must be approached from a common-sense viewpoint, and the facts of each individual case examined closely. The doctrine that reserves should be capitalised on the "take-over" of a business is based on the decisions of case law. It rests primarily on the assumption that the price paid by the buying company for the assets, etc. (represented by reserves, etc.), of the acquired company constitutes the capital of the buying company, and that since this capital is not available for distribution to shareholders in the form of dividends the equivalent reserves must be capitalised. But if the purchase price is calculated to take into account the accruing liability for tax attracted by the profits to the date of acquisition, then surely the reserve created for this same tax should not be capitalised? Surely it should be retained to be dealt with in the appropriate manner, not, admittedly, to pay a dividend but to pay tax?

If this suggested procedure were adopted, the reserve of our hypothetical acquired company would be regarded by the purchasing company as merely a deferred but very real liability, it would not be capitalised and it would therefore be capable of the same treatment in both the subsidiary accounts and the consolidated accounts.

It is appreciated that this question is controversial. The writer takes shelter from opposition under a cover of anonymity!

Taxation and Accounting Trends in New Zealand

A very successful Convention was held by the New Zealand Society of Accountants from February 23 to 28 in the garden city of Auckland, New Zealand. These Conventions are held every fourth or fifth year. There was a break during the war, but a fifth Convention was held in Christchurch in 1946; the excellent standards then established were surpassed at the sixth Convention at Auckland. More than 400 members and their wives travelled to Auckland from many and distant parts of New Zealand to attend the gathering, which was opened by His Excellency the Governor-General, Sir Bernard Freyberg, V.C.

Lack of space prevents our reporting upon the numerous and admirably organised social events and functions of the Convention, which were presided over by Mr. R. J. Brown, F.P.A.N.Z., the President of the New Zealand Society of Accountants. We are pleased, however, to publish this survey of the technical sessions of the Convention. The papers delivered at these sessions amount to an assessment of current trends in New Zealand in taxation and in several accounting fields. For those who may wish to study them further it may be mentioned that they are to be published in book form, together with the commentaries, by the New Zealand Society.

FROM OUR OWN CORRESPONDENT

TAXATION

TAXATION RECEIVED DETAILED TREATMENT IN A COMBINED paper from Mr. A. J. Danks, M.A., Senior Lecturer in Economics at University College, Canterbury, and Mr. C. C. Holland, F.P.A.N.Z., who is head of the Accountancy Department at the University College and senior partner in a Christchurch firm of practising accountants. In a bright and forceful address Mr. Danks considered some of the economic aspects of the Welfare State. In referring to rising levels of taxation to meet ever-increasing social security benefits and social service programmes, he emphasised the need to look at taxation in the national structure as a whole. He mentioned the part which trained accountants could contribute by giving of their detailed experience in helping to ensure that the contribution of taxation in the national structure was in the best interests of society. In this connection he suggested that one warning was appropriate. The criteria which apply to the individual firm in accounting practice may not necessarily apply to the nation. In the former there is no ground for complacency. The accountant, when he comes up against "income," "profits" and "asset valuation" in his work, pursues some notions that are elusive enough. One may properly ask, just what does a balance sheet demonstrate? When, however, the accounts of the nation at large are to be considered the difficulties are even greater. There are no overall profit criteria; to balance incomings and outgoings may not be advisable; complex statistical traps are in the way of anybody trying to assemble aggregates. But if ends are sometimes obscure and policies conflicting, it is still necessary to know something of the measure of social resources. There is room for much refinement and improvement in assessing the national revenue and expenditure, in estimating the national income and describing statistically the capital structure. Here is an interesting field of study for the accountant.

Mr. Holland then spoke on *Income Tax Practice in New Zealand—A Criticism.* At the outset he contended that "it is certain that the canons of taxation laid down by Adam Smith have at least been severely bent if not completely broken. . . . One cannot help coming to the conclusion that principles have been jettisoned in favour of volume of tax." The theme of taxation legislation in New Zealand could be summarised, he said, in the axiom: "if there are two ways of dealing with the same set of facts, take the way that will produce the greater revenue."

In New Zealand income tax is levied under the authority of the Land and Income Tax Act, 1923. Mr. Holland emphasised the difficulties confronting practitioner and student in dealing with this legislation. There have been sixty-six amendments to the main legislation (in addition to a Taxing Act each year). Confusion was increased by the fact that many of the amendments were included in legislation with titles having no reference to Income Tax—for example, the Waitangi National Trust Board Act, 1932, or the New Zealand Centennial Act, 1938. "Indeed," he said, "it would appear that when a change in income tax procedure has been desired the amending legislation has frequently been tucked away in some of the most unexpected places with the result that the original Act has suffered a complete metamorphosis." Mr. Holland concluded his interesting paper with the suggestion that present proposals for a consolidation of existing legislation would not provide an adequate answer and that a new and up-to-date Act is long overdue. He suggested, however, that before this is prepared there should be a complete and exhaustive inquiry into the whole basis of the levying of income tax, including, among other points, the re-establishing of some recognition of the canon of equality; a substantial reduction in the discretionary powers of the Commissioner of Taxes; a simplification of the method of assessing the tax payable; the removal of the many anomalies in the legislation in force to-day; an appreciation

of the effect of taxation in times of changing values of money; a consideration of applying the "step" system to the taxation of companies; and a recognition of the need for some relief from taxation to assist industry in development and expansion, with particular consideration to allowance for funds set aside for replacement of assets.

When listening to both of these papers and to the comments of the official commentators—Mr. C. A. Staples (Auckland), Mr. L. M. Satterthwaite (Dunedin) and Mr. G. H. Lloyd Davies (Wellington)—it was interesting to note the unanimous recognition of the need for taxation being maintained at a level adequate to meet social and national obligations. It was realised that the persistent demands from some sections for substantial reductions in taxation cannot be met unless other taxpayers pay more or social benefits are reduced. The existence of a Welfare State in New Zealand apparently was recognised; the need to pay for it was accepted. But attention was drawn to many anomalies existing under the present legislation and constructive proposals made whereby equity might more widely prevail.

The chairman of this session was Mr. C. H. Perkins, of Christchurch, a past-President of the Society and one who for long has been noted for his keen interest in research. It is to be hoped that the valuable material on taxation presented to this session will be the subject of detailed research throughout the Dominion.

PRICE CHANGES

The official guest speaker at another technical session was Mr. A. A. Fitzgerald, B.COM., F.C.A.(AUST.), F.I.C.A., the well-known accountant, of Melbourne, who spoke on *Accounting and Price-level Changes*. In this paper Mr. Fitzgerald surveyed contemporary thought on many of the problems of this complex subject. He quoted extensively from oversea authorities and concluded his address with a summary of the salient features.

Official commentators at this session were Messrs. F. H. Way (Sydney), A. M. Seaman (Auckland) and J. H. Pickles (Christchurch). Each commended the speaker on the singularly able manner with which he had dealt with this admittedly difficult subject and each gave illustration from his own particular experience of various aspects of the problem. The animated discussion which the address inspired was continued by many groups informally after the adjournment of the session.

WAGE INCENTIVES

A paper on *Wage Incentive Methods and Profit-sharing Schemes* was delivered by Mr. W. K. Hutchens, A.R.A.N.Z. In this paper Mr. Hutchens surveyed the field in detail and indicated the more important basic factors requiring consideration. The commentators were Messrs. R. E. Gregory, of Melbourne (President of the Federal Institute of Accountants), J. Grierson, of Auckland (Chairman of the Auckland Hospital Board) and E. O. Hunter, of Dunedin (a member of the Society's Council).

Mr. Gregory, who is secretary of one of the largest departmental stores in Australia, gave many illustrations of the application of wage incentive schemes to clerical and retail distribution work in his own particular company, thus high-lighting an application of wage incentive schemes not frequently followed in New Zealand.

Mr. Grierson rather startled the Convention by vigorously attacking the idea behind the application of wage incentive schemes in industry. He contrasted the position of a nurse or nursing aid in a hospital or similar institution with an employee in an industrial concern, contending that from the viewpoint of social and community considerations the introduction of wage incentive schemes was bad in principle and had a serious effect on the well-being of the community.

ACCOUNTS OF ELECTRIC POWER BOARDS

Another technical session featured material of special interest to accountants engaged in local bodies. It comprised a paper on *Aspects of Electric Power Board Accounts* by Mr. C. F. Jones, LL.B., B.COM., A.P.A.N.Z., who until recently was secretary of the Waitaki Electric Power Board. For its size New Zealand has fairly extensive electric power reticulation schemes throughout both the North and South Islands and the various power boards concerned have many problems in common. In this address Mr. Jones undoubtedly rendered a great service to the many local authorities engaged in dealing with electric power, and the contribution from the commentators (Messrs. J. Denford, of Christchurch, T. W. M. Ashby, of Auckland, and R. T. Hookham, of Auckland) will be studied with great interest by those engaged in this important field.

AUDITING PRACTICE

On the sixth day of the Convention a member of the Society of Incorporated Accountants and Auditors—Mr. N. H. Chapman, B.COM., A.P.A.N.Z., A.S.A.A.—shared with local members some of his experiences and studies overseas in a most helpful paper on *Modern Developments in Auditing Practice*. It was clear that a great amount of time and careful consideration had gone into Mr. Chapman's paper. He discussed many aspects of the work which are giving serious concern to progressive accountants in New Zealand at present, particularly the degree to which sampling and testing may be applied in place of detailed individual inspection of transactions. The resulting discussion on his paper was led by Messrs. H. W. Chancellor, of Sydney, E. D. Wilkinson, of Auckland, and N. B. Fippard, of Hastings; it was interesting to note that the discussion on this, the final technical session, was more prolonged and more detailed than at any of the other sessions.

The Rise in Local Rates

The 83 county boroughs of England and Wales are levying rates in 1950-51 averaging 18s. 8½d. in the £. This is 5½d. in the £ more than in 1949-50 and 4s. 2½d. in the £ more than in 1939-40. In 34 county boroughs the rate this year is larger than last, in 8 it is lower and in 41 it is unchanged. The rates in the £ vary this year from 12s. 2d. to 25s., compared with a range from 7s. 10d. to 30s. 6d. in 1939-40. This narrowing of the range is largely the result of the new Exchequer Equalisation Grant.

These and other figures are given in the ***Return of Rates*** (*1950-51*), issued by the Institute of Municipal Treasurers and Accountants.

Early Accounting Records

The wealth of accounting records surviving from the medieval and later periods has not been generally appreciated by accountants. These documents have been studied by scholars in other fields—by social historians, biographers of historical personages, students of political history or of early public finance, and others—but they have received little or no attention from the viewpoint of accounting technique.

This report of an address by Sir Hilary Jenkinson, which we have pleasure in presenting to our readers, will, we think, be of great interest in making known the fascinating material available at the Public Record Office. We hope that a worker or workers will be found who can be sufficiently detached from the everyday round of accounting tasks to pursue the lines of research suggested by Sir Hilary's address. It is surely time that the early records of accountancy methods in this country—probably fuller than anywhere else in the world—were carefully studied and a history of them made generally available.

Sir Hilary Jenkinson is Deputy Keeper of the Public Records and Keeper of the Land Revenue Records. He is Reader in Archives in the University of London, and a member of the Royal Commission on Historical Manuscripts. He has been to Italy, at the instance of the British War Office, to advise on the protection of archives there and has been on similar missions to Western Germany and Austria.

The address was given at a Luncheon Meeting of the Incorporated Accountants' London and District Society, held on April 4, 1950.

By SIR HILARY JENKINSON

ONE OF THE DIFFICULTIES IN DEALING WITH THE RECORDS OF accounting in the past is that they are, in this country, exceedingly numerous. Many, many millions still survive to us. The accounting records in the Public Record Office alone number many millions of documents, a document being alternatively a sheet of paper or a roll of parchment perhaps thirty to forty yards long.

How shall I even try, in a very short time, to give you some idea of what the records of accounting in this country amount to? May I take it that you, immersed in more practical and useful tasks, do not know—forgive me if I am wrong—what those records of the past are? How shall I endeavour to give you some idea of them? To begin with, you will probably ask me about dates. The dates of the series of public accounts in this country begin with the twelfth century. We have in the Record Office a series of what I suppose would be called the accounts of auditing of public accounts, which begin with the year 1131 and were not discontinued, nominally, until almost exactly seven hundred years later—1832. The records of the receiving and issuing of the moneys concerned date from not very much later and run also in regular series down to about the same date.

In addition, from the early thirteenth century there are voluminous memoranda rolls, being the minutes of all the affairs which did not get settled at the audit—and which were much more numerous than affairs which did—and from about the same date there are increasingly large masses of vouchers, very often including the complete accounts of smaller departments. For instance, the accounts of the Royal household, perhaps some of the most valuable accounting records in the world, are among them.

The accounts of private enterprise, mainly limited to estate accounts and those connected with them, begin with about the middle thirteenth century and again in increasing numbers have survived from that date onwards. We do not begin to get the accounts of private enterprise in the way of commerce until a good deal later—perhaps about the fifteenth century—but there are a certain number of the household accounts which have survived: just enough to show that they were highly organised and to give us some idea of what we should have had if more had survived from the thirteenth century. But we do not begin to get accounts surviving of commercial houses, and so on, until about the later fifteenth century. Of accounts of other kinds—ecclesiastical, for instance—I will not speak, but perhaps what I have said has given you some idea of the kind of date of the documents with which I am to deal.

Then, having asked a question about dates, you might reasonably ask a question about the handwriting and the language. I am not going to talk about it. I did once write a book—in fact, two books—about the handwritings, one of them based on the records of the Scriveners' Company of London. But the handwritings and the language are not peculiar to accounting; they are problems which assail the people who study the records of the law or of the executives in business or any other departments of administration. The handwritings range from the Gothic right up to the modern, and the languages begin with Latin, change to French and so to the English.

THE USE OF ROMAN NUMERALS

In the case of numerals we come to a matter which is more your own particular province. The accounts of those early dates, with which you fortunately perhaps do not have to deal, are all, in England, done in Roman numerals. Algorism—the use of Arabic numerals—did not make any progress in England until the end of what we generally conceive as the medieval period—that is to say, roughly the end of the fifteenth century. That means a good deal, because, to begin with, the Roman numerals have no zero, and consequently could not be added in the same way as Arabic numerals. This leads directly to what is one of the distinguishing features of medieval accounts as compared with the modern—namely, that they are, as it were, horizontal instead of vertical. They could not be added in columns. They

had to be added horizontally, and that was done by means of a counting board called an abacus: as one column was filled, one moved to the next, horizontally from right to left across the board. So you will see that numerals are a big feature in the distinction between ancient and modern accounting records.

ROLLS TO BOOKS, PARCHMENT TO PAPER

Another big distinction is, of course the form and the material. If you ever honour us with a visit to the Record Office—and I think it would not be at all a bad thing if one day we had a special exhibition of accounting records there; indeed, if you move us to do it I think we shall agree—you will find that practically all the earlier records in England are not on paper but on parchment or vellum, and, what is more important, they are not in book form but in roll form. The roll may be a true roll consisting of membranes of perhaps 2 ft., fastened together, head to tail—a large number of them. The so-called receipt roll of the Exchequer of Receipt may be anything from 30 to 40 yards long. Or it may be composed of long membranes of parchment, the whole length of the sheepskin, piled one on top of the other and filed through at the head.

These rolls do not lend themselves to the sort of accounting to which you are accustomed. If you think of trying to add up a column on a roll 30 yards long, you will see where the difference comes in. Therefore the change over from roll and parchment to book and paper—paper, of course, lends itself more to make-up as a book than does parchment or vellum—is again one of the distinguishing marks between the ancient and the modern.

TALLIES

Another point besides that of external form is the distinction between the receiving and the issuing of money and what you would call the auditing. Before I mention that, however, I am reminded that I have always been told that I could not address any audience without alluding to tallies—and I have not done so. I had better interpolate that. In this country the use of the wooden tally was extremely important. You are probably all vaguely familiar with the story of how they burned down the Houses of Parliament in 1834 with wooden tallies, but perhaps you do not quite realise how important the tally was in the profession of accounting, and although I must not describe it to you at length, I ought just to mention it.

The use of a piece of wood, broken or split in half, in token of a bargain, and also a piece of wood used as Robinson Crusoe used it, by means of notches, for doing a simple form of accounting, was a world-wide practice. In this country it was officially developed to an extraordinarily high degree. A treatise was written on the practice of the Exchequer in the middle twelfth century from which we know that the tally at that date was being used in very much the same form as it continued to be used right down to the beginning of the nineteenth century. Unfortunately they were so pleased with abolishing tallies, which by the nineteenth century had become an extremely expensive and elaborate process—you had to pay the man who held the knife, the man who held the hammer, the man who checked the entry on the roll, and so on—that they decided to get rid of the old tallies, too, and they put them on the fire. The nearest fire was that which heated the House of Lords; and that is how we come to have a modern Houses of Parliament. It also explains how extremely difficult it became to interpret the statements of the *Dialogus*, because there were no tallies left. The only ones we had were two yards long, except those the Bank of England had, which were 8 ft. 6 in. long and which did not seem to agree with the *Dialogus* statement. As the amounts of money grew larger, the tallies became longer and longer, because the mark that distinguished the sum of £1,000 was the thickness of a hand; and as that sum was multiplied, so the tallies grew longer and longer.

It would have been wiser had I resisted this interpolation about tallies. The point is, however, that at the Exchequer (it was also used privately, though with well-marked differences) it was nominally the receipt for money paid in and, as such, continued from the twelfth century down to the nineteenth century.

THE BEGINNINGS OF AUDITING

I now turn back to the point I reached a moment ago when I was going to say that one of the differences between the ancient and the modern is the strong distinction which was anciently made between what you would regard as parts of a single function. Receipt and issue were quite a distinct thing from the nearest that the medieval and post-medieval age got to auditing. Receipt and issue were ancient; auditing was a comparatively new idea. In the case of the central Government, receipt and issue were Saxon; auditing was a Norman importation, and the two departments were quite distinct in the Exchequer at Westminster, the financial department of the centre. We also have enough surviving to us from the accounts of people like the Countess of Clare to see that the same thing obtained in the case of the establishments of people who had large private staffs. There was this distinction between the function of receiving and issuing money and the function of reasoning out about the expenditure of it, and checking it.

That leads me to another point—the point of view of the person for whom accounting records were compiled. That is a matter which I think is very much neglected. People forget that the great baron or the king or the person interested, at any rate for the first few hundred years of the period from which accounting records survive to us, did not write and did not read more than he could help; that the accounts were not submitted to him, and consequently it was nobody's interest to make out anything in the nature of a balance sheet. All that the audit was concerned with was making sure that some accountants had brought in all the money they ought to have brought in or accounted suitably for the fact that they had not.

That is a point of very great importance. I must not enlarge on it now, but if you think of it you will see that when nobody bothered to have a balance sheet accounts were bound to be very different from those with which you are concerned. There was no Budget for the kingdom,

no balance sheet worth speaking of, no estimates, no account by the Chancellor of the Exchequer for many centuries; and the same state of affairs existed in private life. The point of view in regard to money was: "How much have I got?" not "What shall I have and what shall I be able to spend?" That comes right the way down to the seventeenth century. If you read Pepys's *Diary* you will find him at intervals casting up how much he is worth. It means that he went up to the attic where he had his money and counted it. It does not mean that he looked at a paper statement. The same applied to everybody. You find that is so if you study the accounts which have been published of the Earls, such as those who afterwards became the Dukes of Bedford. There, again, you can see a point of view that profoundly affects the nature of the records accounting will leave to us.

So we have thus far the difference produced by the form of the document or accompanied by the form of the document—the roll instead of the book—the differences produced by the use of Roman and not Arabic figures, and the difference produced by the point of view which worried solely about what there was in the barrels and sacks and so forth containing the money and did not calculate on paper what was available.

You will, perhaps, say that this seems very simple: it must make the records of accounting very easy to study. I personally am interested in the records of accounting and study them in order to try and disentangle the way in which they accounted. Most people, however, study them for quite another reason, such as to find out how much was paid to somebody to go as ambassador to some place. They study them for the purposes of the biographical, social or political history which is involved. You will appreciate that the differences between the ancient and the modern which I have been endeavouring to point out to you considerably affect one's interpretation of the records. You might think that they should be very simple things to interpret. Not a bit of it!

ANTICIPATING REVENUE

Our ancestors were perfectly aware of the one great difficulty of finance: the difficulty of paying for this year's pleasures or necessities out of the income of next year or the year after, or some year later still, and they were inventing methods of doing it as soon as our records begin. They did it very largely through the tally. They discovered quite early that if you made out a receipt for money which you hoped X might pay to you next year or the year after, and if you could persuade Y, to whom you owed money, to accept that in payment, either by bringing pressure to bear on him of some kind, moral or otherwise, or by giving him a discount, then that temporarily eased matters very much for you, and you obtained the money you needed in order to build your ship, have your dinner party, conduct your war, or whatever it might be. They discovered that as early as the twelfth century.

But can you think what the effect would be of anticipating revenue in that way—of assigning debts by means of what purported to be a receipt for cash? Can you think what the effects of that would be upon a record which consisted simply of entries of the fact that on a certain day a certain tally was made? Can you imagine what the effect would be in the case of a modern historian, who assumes that a roll on which tallies are registered is a roll recording receipts of money at Westminster, and who writes an account of the financing of the Hundred Years' War out of that roll, without being aware of the fact that a large number of those tallies did not represent money that came in at all but represented some very optimistic views on the part of the Exchequer of the money that might be expected to come in at some time?

That and numerous other devices were extremely common things, and they are the accompaniment of the study of the medieval records of finance. They are extraordinarily detailed. I spent I do not know how many hours, days or weeks in discovering what was the meaning of a dot which sometimes occurred in the margin of a particular roll, because without knowing what that dot meant one might entirely misinterpret the roll. But that is the kind of way in which one studies the accounts of the medieval period.

THE EVOLUTION OF ACCOUNTING

Now those accounts must not be regarded as something entirely divorced from the accounting records of the present. There is no violent division between the methods that one sees pursued to-day and the methods that were pursued medievally. One has developed a great deal into the other. There is no more violent change than there is in the change between the ledger which I see, to my regret, figuring among the records of public Departments at the present day and the ledger of one hundred years ago, which was really a valuable document that told us something.

We have to regard this development of accountancy and of accounting records in England as a process going right through the centuries, and not as one which began at a certain date, went on to another date, then stopped and was superseded by a new one. Of course, new forms did come in from Italy or from Flanders, whichever it may have been—the experts are still disputing it. There came in what is known as the Italian system of accounting. Literacy became more common, people ceased to use digital computation and took to Arabic numerals, and sums were done in the modern way. There were those introductions from abroad, but they did not supersede the old: they were placed beside it and gradually woven into the texture of the older administrative organisation.

I should like to conclude this talk with an invitation to you to come at some time, by arrangement, and see what these things look like at the Public Record Office, where there are a very large number of them. If you move us to do it, I think we might presently, very profitably to ourselves as well as to you and to the public, have a special exhibition of accounting records. It would be extremely interesting.

PRESERVATION OF MODERN RECORDS

Your chairman has put upon me the duty of saying one word before I conclude about what the modern accountant or registrar, oppressed with the problem of what records he should preserve, ought to do about it. That, alone, is a

subject for many hours' discourse, but there is, I think, one supremely important thing to say, and that is that you have to remember that all the really important uses of archives—or very nearly all—are for purposes which bear no relation whatever to the purposes for which the archives were originally compiled. I remember a professor who came over from France on one occasion to study the accounts of the wardrobe (or household) of Edward III. Did he want to know what Edward III spent on his household? Did he want to know anything about the relations of France and England then, or of Edward III with the various personages, male and female, of his court? No; he wanted to study the pathology of "touching for the king's evil." He discovered that Edward III, when he touched people to cure them, bestowed a certain amount of alms, and by finding out the amount of alms he could calculate the number of people touched and get various facts of value to him for that piece of purely medical research. That is typical, and that is the thing you have to try and provide for when you are considering the final preservation of records.

I am not going to try and give you any tips in regard to that, but I ask you to bear it in mind. I may say that the Record Office and the various organisations connected with it, such as the British Records Association and the National Register of Archives, which use us as a kind of focus of their activities, are very anxious to provide you with the necessary information which will enable you, so far as you can be enabled, to preserve judiciously in the interests of future historians and research workers. There is a certain amount of printed literature available, and if any of you who are responsible for the destruction or preservation of modern records should desire guidance, there are people at my office who are only too ready and anxious to give it to you.

I do assure you, speaking as one who is no accountant, either by nature or training, that the records of accounting in the past are incredibly amusing and interesting. It would be a very great pleasure to me and to many other people concerned with this matter if we felt that the Incorporated Accountants' Research Committee could be encouraged in any way to do what, curiously enough, is a work that very badly needs doing, and that is, to tackle the records of accounting in the past which up to now have been terribly neglected. We have records from the thirteenth century down to the present day or at least to the beginning of the nineteenth century, not one of which has been published. There are those records of accounting, of interest not only to accountants but also to general historians, waiting for exploitation. Who should be the exploiters of the records of accounting if not the accountants?

Financial Control in Industry*

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I HAVE BEEN ASKED TO TALK TO YOU ABOUT financial control for purposes of industrial management; what is it and how is it exercised?

The subject is an important one. Financial control is a field in which accountancy has made great progress in recent years, and a field in which scope for much further progress still remains, measuring progress by an enlarged contribution to industrial administration and management.

It is also a far-reaching subject, for it pervades most of the many and varied duties of the industrial accountant, and, at the same time, touches the active management of business concerns at many points. Indeed, the development and practice of control by financial methods has only been made possible by a close collaboration between managers and accountants. This, I hope, will become clear as we go along.

You may have noticed that I referred a moment ago to "methods" of financial control, not to a "method." This, again, is fundamental. There is no one method of financial control that I can put before you this evening as the epitome of financial management. Methods will vary with the personality and outlook of the managers, with the form of organisation through which the management works, and with the nature of the business that is carried on. Therefore, all that I can do is to analyse the underlying principles and purposes of financial control as I see them. This I shall do under two broad headings. First, I shall discuss the nature of financial control: what would be your objectives if you were charged with the task of introducing financial control in a business undertaking? Secondly, I shall indicate some of the methods that are used for purposes of financial control: what particular systems or techniques would be available to you for the purpose of achieving these objectives if you were asked to introduce financial control to a particular business?

THE NATURE AND PURPOSES OF FINANCIAL CONTROL

Let us begin, then, by considering the nature and purpose of financial control. What is it? What are its objectives? What would you seek to achieve if you were responsible for introducing it?

Now the word "control" usually connotes restraint; the act of holding something in check. Indeed, financial control often does imply a restraint upon expenditure. The phrase "control by the purse," implying fixed limits to what may be spent, is in common use. Mr. Micawber's dictum is still valid. You will remember he said: Annual income twenty pounds, annual expenditure nineteen nineteen six, result happiness. Annual income twenty pounds, annual expenditure twenty pounds, ought and sixpence, result misery.

Where expenditure is met out of moneys received from sources which are largely independent of the expenditure itself, as is the case with much governmental and municipal expenditure, control by the purse is essential. The size of the purse is defined, and expenditure must be kept within the limits of the purse. A proportion of the expenditure incurred by trading or commercial concerns is capable of the same treatment. Capital expenditure on new assets and revenue expenditure on publicity are two simple examples of expenditure that can be strictly budgeted. Wherever this treatment is practicable it should be adopted, for it is a simple and effective

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means of keeping departmental expenditure under control. But the position changes when we come to much of the expenditure which is incurred in the course of carrying on the day-to-day operations of trading concerns. In trading and commercial concerns income and expenditure are closely linked. Income is conditioned by the amount and the effectiveness of the expenditure that is incurred, with the result that expenditure cannot be kept rigidly within pre-defined limits without affecting the amount of the income or revenue. This is true whether the trading concerns are carried on by Government Departments, by municipal authorities or by publicly or privately owned industrial undertakings. It is the return that is obtained for a given expenditure, rather than the amount of the expenditure itself, that matters in the long run, and the problem of management is to maintain the productivity of expenditure at a maximum. A rigid financial control of one part of the equation only—expenditure—would thus be inappropriate. It could be cramping and stultifying to both initiative and progress. Success would come to be measured more by the degree to which expenditure had been kept within the defined limits than by the result—the product—which had been obtained in return for the resources that had been used up.

Again, financial control may be taken to imply that financial considerations alone will control management decisions. Nothing could be further from the truth. An undertaking—whether publicly or privately owned—must be conducted so as to ensure that it will be self-supporting. This we can accept. It implies a margin of earnings sufficient to remunerate the capital that is employed and to ensure the continuity and development of the productive resources of the business. The probable financial consequences of future action must therefore be assessed before action is decided upon. But this does not mean that the accountant's assessment of the financial consequences of some proposed policy will necessarily govern the decision that has to be taken. Often enough the effects of some decision of policy cannot be fully foreseen, much less expressed in financial terms. Even where the financial consequences of a particular course of action seem likely to be adverse, it does not follow that a negative decision will or should be reached. An appreciation of the financial factors, so far as they are known, is essential, but vision and foresight, and the courage to take risks, are also required. This thought was expressed by Sir Daniel Gooch when, writing about the engineer Brunel the younger, he said :

> The commercial world thought him extravagant but, although he was so, great things are not done by those who sit down and count the cost of every thought and act.

Again, considerations of the public and social interest may intervene and compel that a particular policy be pursued in the face of a narrow and adverse interpretation of financial results. This is certainly true of undertakings which are charged with the responsibility of giving a public service. It is increasingly true of what are called "private" undertakings. The diversion of business activities to meet the over-riding need for exports to the dollar area, to the detriment of what may be more profitable business in the sterling area, is a case in point.

Financial control, therefore, does not necessarily mean the dominance of financial considerations in decisions of future policy, though once again it should be added that no change or development of policy should be embarked upon without the best assessment that can be made of its probable financial effects.

Then, again, financial control obviously depends upon the institution of particular methods or systems, for without methods or systems or procedures, call them what you will, control is impossible. But financial control is not just a system. No system, financial or otherwise, or however perfect, will of itself control anything. Control implies action, and no system is of itself active, though the product of a system can facilitate action by those responsible for taking it.

This last point needs still further elaboration. The word "control," used in conjunction with "financial," could lead to an assumption that it is the accountant who takes the action which springs from financial control. If this conception exists, it is wrong. It is not for the accountant to take action arising out of financial control, for if he did so he would himself be the manager of the business.

What, then, does financial control in fact imply? I suggest that basically it implies a system, administered by the accountant, which provides data by means of which those responsible for managing a business can exercise control over the functions and activities placed in their charge. This, as I see it, is the true nature and purpose of financial control. The success of control by financial means will be conditioned by the quality of the system, and by the way in which the data the system provides are presented and interpreted by the accountant. But the effectiveness of the system will in the end depend upon the use that those—the management—who directly administer the affairs of the business can and do make of the data which the system provides for them : the use they make of these data, either in initiating or guiding their own actions and decisions, or in judging the efficiency and economy with which those responsible to them have discharged their particular duties.

THE FUNCTION OF ACCOUNTANCY WITHIN INDUSTRY

In order that we may see financial control in its proper perspective we will look briefly at the great change that has come over the function of accountancy within recent years. Not so long ago the accountant in an industrial concern was little more than a chief book-keeper. He rendered invoices, paid the bills, prepared wages sheets and kept the books of account. Then, at the end of the year, he drew up a trial balance, from which the annual balance sheet and profit and loss account were prepared. He made little or no contribution to the day-to-day management of the concern. His office was often called the "counting house," a description that gave the key to his function. He was a score-keeper, recording events after they had occurred. If he was in charge of costing, it was almost invariably historical costing. Unavoidably, he was out of touch with his colleagues. Often enough the financial score, when he had finished with it, was less good than the active participants in the game had expected, and not infrequently he who kept the score was regarded as something of a nuisance, however necessary a nuisance.

The measurement of financial results—financial accounting, as it is called—is still an important part of the accountant's work, and must remain so, for the survival of business enterprise still depends upon the financial results that are secured. I hope nothing I say will be taken to lessen the significance of this branch of accountancy. But during recent years a new emphasis has appeared. Financial and statistical methods are now used, with increasing impetus and success, as a means for controlling the detailed operations which are carried on by industrial and manufacturing undertakings. In the past the primary question which the accountant set out to answer was, "What has happened?" The question to-day is "What is happening?" And still another question is becoming increasingly insistent, the question "What will happen unless something is done about it?" It is here that the accountant's help is most wanted, and his difficulty is to keep up with the demands of those with whom the responsibility for management rests ; demands for up-to-date—indeed, up to the day—information about what is happening within the business ; demands for assessments, in financial terms, of what is likely to happen ; demands for the evaluation of the financial consequences of action which management proposes to take.

This larger conception of industrial accountancy has been vividly portrayed by Sir Charles Renold, the President of the British Institute of Management, in the following words :

> . . . I was brought up in a business in which the development of the accounting system did not spring from the accountants at all. It sprang from the needs of management ; from management's needs to know what it had achieved and where it was going. . . . I am not an accountant myself, but I simply cannot conceive of running a business and not wanting to know, in terms of money, what is happening and what is likely to happen. I employ an accountant to prepare such pictures for me because I want them, and because money is the medium in which the greatest number of influences can be expressed in common terms.

The key words here are " I simply cannot conceive of running a business and not wanting to know, in terms of money, *what is happening and what is likely to happen.*" And that is precisely what is demanded of the accountant for purposes of financial control.

It is now time for us to turn to a consideration of the second part of our subject, the specific practices by means of which financial control can be exercised. What particular practices, or methods, would you consider if you were responsible for introducing or improving financial control ?

INTERNAL CHECK OF FINANCIAL TRANSACTIONS

First of all—and in order to get it out of the way—financial control must and does embrace that aspect of the accountant's work that is concerned with integrity—honesty if you will—in financial affairs. Methods and systems must be established that will eliminate the risk of financial irregularity, so far as that is possible, and that will show up irregularities if they occur. You will be familiar with the methods of internal check by which this is done and I need not enlarge upon them this evening.

In large undertakings internal audits after the event are part of the process of internal check. These internal audits may take the form of a day-to-day check on financial transactions, or they may extend to an investigation of receipts and expenditure, after the event, for purposes of managerial control. They do not displace the duties of the professional auditor, though he will doubtless have regard to them in determining the scope of his own audit.

A brief example of internal audits in action may help towards an understanding of the kind of work involved. In London Transport we have a Traffic Audit Office, whose duty it is to check that the money collected by conductors on road service vehicles and by booking-clerks at railway stations is paid in and properly accounted for. This involves a detailed check of voluminous records, originating on the vehicles or in the railway ticket offices. In the course of applying this detailed check the staff concerned produce considerable statistical data which are essential for purposes of management. In London Transport we have also an Audit Office, whose duties include the check upon other categories of income, the post-audit of particular classes of expenditure, and the check upon the existence of physical and other assets, whether money, plant and machinery, or stocks of stores and materials, together with the review of the operation of the systems of internal check. These duties contribute to financial control. They also contribute to the managerial administration of the undertaking.

COMPLIANCE WITH DELEGATED FINANCIAL AUTHORITY

Another element of financial control is the delegation of financial authority. Financial authority, that is to say, the authority to incur financial commitments, whether by contract, by the purchase of stores or supplies, or by the engagement of staff, must be delegated to the different sections of an organisation. This delegation must be carefully defined in order that there shall be no doubt about the authority of particular departments to incur financial commitments. Authority must run with responsibility, and vice versa. While the delegation of financial authority is a matter for the management, the advice of the accountant will no doubt be sought upon it.

In parallel with the definition of financial authority, it will be the duty of the accounting organisation to ensure that the limitations placed upon the authority of different persons or departments to incur financial commitments are complied with.

Financial control thus involves a definition of the authority of different persons to incur financial commitments, and a check by the accountant to ensure that the limits placed on the authority of these persons are adhered to.

CONTROL OVER FINANCIAL RESOURCES AND COMMITMENTS

Another aspect of financial control is the balancing of future financial needs against the resources likely to be available for meeting them. This process, put quite simply, is necessary in order that there shall always be sufficient money at the bank to pay the bills when they fall due, and in order, too, that any temporary surplus of finance shall be invested to the best advantage. An assessment of the capital likely to be locked up in debtors, in stocks of material and in work in progress, and the rate at which the working capital locked up in these items is turned over, form part of the process—in these days of rising prices an increasingly important part of the process. The same volume of business, the same quantum of physical assets, involve a larger number of pounds sterling, and unless moneys are retained out of profits to finance the higher monetary value of stocks, work in progress and other physical assets, brought about by rising prices, it can only be a question of time before either the business done must be curtailed or new money must be introduced to finance the same volume of business.

The assessment of financial resources and commitments must take account of long-term, as well as short-term, needs, so as to ensure that funds will be available to meet expenditure on future development schemes ; or, alternatively, to foresee when further capital resources will need to be raised by borrowing or in other ways. The provisions and reserves set aside out of revenue for the depreciation, obsolescence and renewal of wasting assets, and for the future expansion of the business, obviously make an important contribution to this aspect of financial control, since these provisions and reserves are the principal internal source of long-term finance.

As an aside, though a pertinent one, perhaps I might refer to a simple illustration, which I came across the other day, of the effect of rising prices on finance. It was this. Assume that a man sets up in business as a boot retailer with a pair of boots which he bought for £2. Next, assume that he sells this pair of boots for a sum sufficient to meet his expenses and to buy an identical pair of boots which, because of rising prices, costs him £2 5s. He again sells the boots for a sum sufficient to meet expenses and to buy another pair of boots for £2 10s. The process goes on until, having started with a pair of boots costing £2, he is left, at the end of the year, with an identical pair of boots which has cost him £3 and a balance sheet that would read something like this:

	£		£
Subscribed capital	2	Stock-in-trade	
Profit . .	. . 1	at cost	. . 3
	£3		£3

Has he, in fact, made a profit of £1 ? Certainly not in terms of boots—he is no better off than he was when he started—though economists and some accountants might argue for a long time whether he had made a monetary profit. The income tax authorities wouldn't argue at all ! The important point for our immediate purpose, however, is that this £1 could not be taken out of the business and be spent as profit ; it is required to finance the higher cost of

stock-in-trade, namely, the higher cost of a pair of boots. And that is precisely why many of our leading industrial concerns are setting aside, out of "profits," substantial sums of money to finance the higher cost of replacing stock-in-trade and work in progress.

In these days of rising prices a realistic assessment of future financial needs and probable financial resources, a balance sheet of future resources and future requirements, is more than ever essential if the financial equilibrium of an undertaking is to be assured. This is part of financial control. It is also an illustration of what Sir Charles Renold meant when he said that he required to know from his accountant not only "what is happening?" but also "what is likely to happen?"

PERIODICAL STATEMENTS OF PAST FINANCIAL RESULTS

We now come to the question of control over the day-to-day transactions, involving both revenue receipts and revenue expenditure, that make up commercial and manufacturing activity.

Financial control requires an up-to-date knowledge of what is in fact happening within a business. That we can accept, for an active control over events is impossible without a knowledge of what is happening. A picture of current events can best be drawn in monetary terms, since money is a common denominator for differing transactions, though statistical and quantitative data also form part of the process. If, therefore, financial control is to be exercised, the accountant must submit to the management, at daily, weekly or four-weekly intervals, according to its nature, carefully selected financial and statistical data which will give a picture of what is happening. At one end of the scale the manager of a motor car manufacturing business will want to know how many motor cars are turned out each day (he will want to know much more). At the other end of the scale the shop superintendent will want a quantitative assessment of the output from his shop day by day, contrasted with the man-hours that should have been and were occupied in producing it.

Short-term periodical statements of financial results are an essential element in the portrayal of what is happening, always provided they enable those in control to see where profits or losses have been made, or where, by whom and with what result expenditure has been incurred. The form in which these short-term statements of past results are presented is all important. Put yourself in the position of the managing director, wishing to use statements of financial results for purposes of managerial control; what would you want them to tell you? I suggest they must meet two basic needs.

The first is that they should show not only how much profit or loss has been made but also where profits or losses have been made. A business may consist of several different departments. If so, it is not enough to show how much profit has been made by the business as a whole. The periodical statements, if they are to be of any use for purposes of control, must show what profit or loss has been made by each department or activity.

This process is not always as simple as it sounds. To begin with, it must be decided which activities shall be treated as separate trading units. If the business is organised by way of separate, self-contained branches there should be little difficulty in determining the financial results derived from each. But there may be one composite business carrying on different activities. If so, which of them are to be treated as separate trading units? This question can only be settled according to the usefulness of the information, for purposes of control, when it has been compiled.

When the division by activities has been settled, further questions will arise as to the accounting basis on which income and expenditure should be apportioned between the different activities. On the expenditure side many items of expense will fall naturally against one activity or another. Other expenses will be common to more than one activity. Lighting, rates, insurance, fuel and power, the maintenance and depreciation of buildings, the salaries and expenses of management, and common services such as sales, design, costing and accounting, are examples. Expenses such as these, which are common to more than one activity, must be apportioned on some statistical, but none the less equitable, basis between the activities or departments which benefit from them. The object must be to give those responsible for managing the business, at short intervals, not only a picture of the business as a whole but separate pictures of the constituent elements which make up the whole. The management must be able to watch the progress of each of these separate elements, in order to judge the consequences of the policies that are being followed, and to see which sections of the business are in need of stimulation, special attention, or perhaps a temporary tightening of managerial control.

Accepting this, what happens next? A departmental analysis of financial results may show that attention needs to be given to particular sections of the business, but a departmental analysis will not necessarily identify financial results—good or bad—with the particular persons who have influenced them. The financial results of what is treated as one activity may have been affected by the action of several different persons. The separate influence of the operating manager, and the chief mechanical engineer, on the profits earned by a bus or a railway undertaking afford an example. The constituent elements that make up the financial results must therefore be attributed to specific persons, if the analysis of financial results is to be used by the responsible officers in the control of their own functions, and by the management, at a higher level, to identify financial results with the officers to whom authority and responsibility have been delegated. I suggest, therefore, that in parallel with an analysis of financial results by activities or departments there must also be an analysis of expenditure according to the persons who were responsible for incurring or controlling it. As Mr. Raymond Chambers said in a book on *Financial Management* recently pubished in Australia, "No person's effort should be expressed in, or related to, any figures which he is not in a position to influence." This is basic to financial control by an analysis of past results. There must be an accounting analysis of expenditure, in units capable of being summarised both in relation to the persons responsible for incurring it and in relation to the appropriate trading activities. This is a practice we have followed for many years in the London Transport undertaking. Our four-weekly statements show the financial results for each of the six different forms of transport which we operate. At the same time the statements give an analysis of expenditure according to the officers who were responsible for incurring it.

COST CONTROL

We must now leave financial results and come to the question of cost control; that is to say, control over the detailed costs of manufacturing an article or providing a service. You will not expect me to deal exhaustively with this subject as a section of a short paper. A review of financial control would, however, be hopelessly incomplete without some reference to it.

Here again, we must first consider just what we mean by the words which define our subject—the words "cost control." Control we can accept as action based, in this case, on the results thrown up by the process of costing. But what do we mean by costing? As Mr. Raymond Chambers points out in his book on *Financial Management* to which I have previously referred, costing really embraces three quite separate, though related, subjects. There is what he describes simply as "costing," meaning the preparation of estimates of cost for the purpose of fixing selling prices. There is "cost accounting," meaning the reporting

of facts relating to the discharge of particular responsibilities. And there is "cost control," meaning the use of costing for detailed control over productive operations, so as to secure economy and efficiency.

Costing, where it means the estimation of future costs for fixing selling prices, is mainly a job for the technical staff, though past costs and standard costs—to which I shall refer later on—may act as a guide to probable future costs and selling prices. Costing for the purpose of fixing selling prices is outside my subject of financial control. But where costing means the recording of past costs, or the use of costs for purposes of control, it certainly falls within the ambit of my subject. It becomes one of the means by which active control is stimulated and facilitated by financial means.

Here I must revert at once to a point I made earlier on in connection with accounting generally. I refer to the necessity to relate accounting figures of expenditure to the persons responsible for incurring and controlling the expenditure. This point applies with equal force to costing. Take overhead expenses as an example. Where estimated costs are being built up for the purpose of fixing selling prices, or where actual costs of manufacture are being measured against actual selling prices, overhead expenses must be carefully allocated to the output on which the overhead expenses have been incurred. The costs which are compared with the selling prices must be full costs. But a statistical allocation of overhead expenses by product will only confuse costs for the purpose of cost control. If costing data are to be effectively used for purposes of costing control, it must be possible to identify costs with the persons who incurred them, but this is impracticable when costs include a statistical apportionment of overhead expenses. No one person will be responsible for all the expenses that make up the total cost of the particular product. For purposes of cost control, therefore, costs should be analysed in parallel with the organisation; that is to say, the cost analysis should reflect the expenditure which has come under the control of particular individuals. An extract from the report on steel founding, issued by the productivity team which recently visited America, underlines this point:

> Shop control is most effectively exercised by issuing operating statements to foremen and departmental heads. The statements vary from simple records of man-hours worked and tons produced to detailed budget statements showing *daily* any departure from budget standards of labour employed. The prime responsibility for meeting productivity budgets lies with the supervisor, *to the extent of his control.*

Cost control becomes most effective, however, when objectives—standards of performance—are fixed in advance, against which actual performance, actual costs, can be measured. What is known as standard costing is undoubtedly the most useful system for this purpose. It is a system which cannot be operated by the accountant alone but only by the accountant working in close association with the operative departments, for standard costing begins with the question, "What ought the cost to be?" This is a question which only the technician can answer, and he can only answer it when the technical operations by which a particular article should be manufactured or fabricated have been decided upon. When the operational methods have been settled, the time which should be taken to perform each operation must be assessed, and the quantities and types of material to be used must be specified. When all this has been done standards of cost can be worked out against which the cost accountant can measure actual performance. Provided the standards have been properly set, divergences from the standards will disclose where waste, whether of human effort, physical material, or productive facilities, is occurring.

These standards of performance need not be in terms of money. Labour costs for purposes of control can be expressed equally well—perhaps more simply—in terms of man-hours. It is just as effective (perhaps more effective) for a section superintendent to be made aware that a product has occupied 120 man-hours where the standard is 100 as to be told that the labour cost of a product has been £18 where the standard is £15. Equally, the usage of materials can be controlled just as well in terms of quantities as in terms of money values. In fact, if the quantities of material to be used are pre-determined, and no more than the assessed quantities are issued from the stores, then wastage must sooner or later disclose itself, for if the quantity of finished products called up in the relevant works order is to be completed there will one day be a demand for additional quantities of material to replace that which has been dissipated.

Standard costing, then, rests in principle on a pre-determination, in terms of man-hours and quantities of material, of what a particular operation, or a particular output, should cost and a measurement of the actual man-hours and material quantities against the standards. The standards can only be set by technical staff, working under the control of the engineers. Indeed, before standards can be set the technical methods to be employed in carrying out the productive operations must be laid down. The standards thus govern not only costs but also technical methods of manufacture.

At its best, and where it can appropriately be applied, standard costing will enable the shop supervisors to be provided, day by day, with a contrast between the man-hours that have been absorbed for a given production in the shops under their control and the man-hours that would have been absorbed if the established standards had been adhered to. Where this can be done you have cost control in its most effective form. Waste is disclosed. It is disclosed in relation to the activities controlled by particular individuals, and it is disclosed promptly, while there is yet time for corrective action to be taken. The data thrown up by the standard costing system can also be summarised so as to enable management, at higher levels, to keep their fingers on the pulse of the job, and thus satisfy themselves either that responsibilities are being properly discharged or that remedial action is necessary.

BUDGETARY CONTROL

Much more could be said about the place which costing, and the use of costing data, should take in the exercise of financial control, but time is running on and I am left with too little time for my last topic, the subject of budgetary control.

We have considered the accounting and costing of past transactions as elements in financial control. A constructive criticism of what has happened in the past forms an essential element of control, but control, financial or otherwise, cannot be exercised solely by criticising past events. Past experience is a useful guide—a signpost—to future action, but it is not enough. Control is not exercised by looking backwards. The essence of control is to decide where one wants to go, and then, having defined the objective, to set the course so as to get there. Deviations from the course there are bound to be, for the impact of outside influences, not of themselves capable of control, will affect the course that is in fact taken. The deviations must be measured, allowed for and corrected. None the less, the objectives must be defined, or there can be no control over their realisation.

We have glanced at standard costing as a means of establishing objectives—standards of what something ought to cost—and then measuring performance against the standards. Objectives are equally necessary in relation to the finances of the business as a whole. Once more we have to face Sir Charles Renold's second requirement, "What is likely to happen?" And, again in his words, "because money is the medium in which the greatest number of influences can be expressed in common

terms" it is by financial and statistical methods that future objectives can best be defined.

In this definition of future objectives in financial terms accountancy has made great strides forward in recent years. Standard costing, to which I have already referred, is one of the methods by which this has been done. Another is budgetary control. The development of this forward-looking function has changed the whole emphasis of industrial accounting. Industrial accounting is still very much concerned with recording past events, but it has now to meet the primary need of any form of control, financial or otherwise; the need to look into the future. Budgetary control is a system concerned solely with what is likely to happen in the future; what should be capable of achievement. It enforces a review of future policy against the background of the financial needs of the undertaking as a whole. It sets objectives, financial objectives, and so establishes standards against which performance, as reflected in the periodical statements of financial results, can be measured. It enables control to be exercised by disclosing where deviations from standards have occurred, or are likely to occur unless something is done about it.

The preparation of a budget of income and expenditure for an industrial undertaking is a fascinating task. It involves a survey, in conjunction with the departmental officers, of all the many facets of the business which is carried on. Sales, numbers of staff, levels of earnings, consumption of materials, the degree of productivity; all these things come into it. The precise methods, and perhaps the scope of the budget, will vary from business to business; none the less, there are two basic points of general significance which I must make.

The first is that the budget must give an analysis of income and expenditure in the same form, and carried to the same degree of detail, as that which is used for the periodical statements of financial results. Perhaps it would be simpler to say that the budget must be built up by estimating income and expenditure under the same detailed headings as those that will be used for classifying the actual transactions when they occur. This is necessary in order that the budget may be used—as it should be—at all levels of supervision for measuring performance, and for disclosing and explaining divergences from expectations. It is necessary, too, in order that the budget shall show the financial results that are expected from particular trading activities, and at the same time give an analysis of expected expenditure according to the officers who will be responsible for incurring it. If this is not done there is no hope of facilitating control by financial means. The officers concerned will not be able to relate the budget to their own activities, or to compare performance with expectations. This is true where it is a question of control by top management over those responsible to them; it is equally true of control by the officers and supervisors, all down the scale, over the work of those who report to them.

The second point is that the preparation of the revenue budget is not solely a matter for the accountant and his staff. For one thing, much of the information the accountant will require can only be provided by the operative departments. But there is another reason more basic than that. If the operative departments are to accept the budget as a standard for measuring their own performance, and if they are to use it for measuring the performance of sections within their departments, then they must be satisfied that the budget is capable of achievement. Indeed, the first budget estimates must be provided by the departments themselves. There will be a searching review of these departmental estimates by the accountant, and by management. There may be occasions when particular items have to be referred to the management for decision, or when decisions of policy will set limits within which particular activities must be restricted, or to which they are to be expanded. There will be occasions, too, when the expected level of activity in one department will condition the output or activity of another department. But within the framework of over-riding considerations such as these the departments must be participants in the preparation of the budget, and have the opportunity of expressing their views about the practicability of achieving it.

"HIGHER CONTROL"

It will not be right to pass from this question of budgetary control without referring to what is sometimes advanced as an alternative means of control. I refer to the system termed "Higher Control," so cogently advocated by Mr. T. G. Rose. Here again, an exposition of the system in the time available is out of the question. But Mr. Rose, as you will know, prefers to discard budgets and, instead, to trace trend by means of moving annual totals; that is to say, by plotting on a graph the aggregate figures for whatever activity is under study for periods of twelve months up to the significant dates. The twelve-monthly totals are calculated up to the end of each week, the end of each four weeks, or the end of each calendar month, as the case may be. There will always be a twelve months' total in each figure, and the line on the graph will move up or down according to the extent to which the new period brought to account—say, the month of March, 1950—compares with the corresponding month of the previous year—say, the month of March, 1949—which will be omitted from the new calculation. This system, by eliminating short-term fluctuations, discloses trend in the clearest fashion for those at the top who cannot be expected to study detail. Moreover, trend is expressed in terms in which the financial results will ultimately be judged—namely, in yearly totals. By marking on the chart the aiming point for a particular activity—the point which the activity is expected to reach by the end of the year—the progress of the business towards that target can be measured as the year proceeds. It is a system which depends entirely on the projection of past results as a means for anticipating the future. It has its uses. In London Transport we use it in conjunction with our budgeted estimates. We show on a graph a dotted line, representing what the moving annual totals would be, four weeks by four weeks, if the budget estimates were realised, and we plot against this dotted line—again in terms of moving annual totals—the trend of actual results as they become available. In this way we see in the simplest terms where we expect to go and how far we have got along the road. Actual trend is related to prospective trend.

I am conscious that I have not had time to discuss adequately many aspects of financial control which I have touched upon. Each one of them is a subject in itself. There are other aspects of financial control which I have not been able to touch upon at all. All I have been able to attempt is to give you a general conception of financial control within industry, as it is developing; what it means and how it is exercised.

You may think that by discarding the notion that there are financial methods which of themselves can be used to control industrial activity I have written down and narrowed the function of financial control. This would be wrong. It is true that I have not interpreted financial control as a rigid control by the purse strings. Nor have I put before you a financial system the due functioning of which will automatically exercise control. What I have endeavoured to do is to give you a conception of various financial and accounting functions which can be used by those—the management—actually responsible for industrial operations, in order that they may control, with a proper consciousness of cost, the activities which are in their care. Approached in this way the scope of financial control is widened, not narrowed. It becomes a function exercised by all in managerial or supervisory positions, aided by the accountant who gives them the material for the purpose, and assists in its interpretation.

Letters to the Editor

Depreciation—*ad nauseam*

Sir,—The letter from your correspondent Mr. D. Barratt (see Accountancy for April, 1950, page 123) prompts me to offer some comments in the great depreciation debate.

It must be pointed out, of course, that Mr. Barratt's proposals would be practicable only in a very small business. One cannot, for example, imagine an organisation like *British Railways* producing an annual schedule of hypothetical replacement costs. However, there is another and perhaps more important point arising from Mr. Barratt's letter. He gives an example of a machine purchased in 1944 at £400, the replacement cost in 1950 being £1,200, a situation which is by no means unusual. His charges against revenue in 1950 are therefore £40 (historical depreciation) and £180 (replacement reserve). As the reserve contribution is not allowable for tax purposes, it becomes necessary to earn £356 to provide it (profits tax 10 per cent., and income tax 9s.).

On the other hand, if only historical depreciation is charged, the balance of replacement cost (£800) would have to be met in 1954 by loan or by capital adjustment. Thereafter the annual charge to revenue would be £120 (historical depreciation, all allowed for tax), plus interest (say 5 per cent. of £800, or £40). The increase over present historical depreciation charge would therefore be £120.

We thus find that, if we anticipate increased replacement costs, we are required to make an additional charge to revenue equal to almost nine times the historical charge, whereas, if we wait for replacement to occur, the additional charge is only three times the present charge. A point sometimes overlooked in discussions on prudent finance is the fact that the additional reserve can only be provided by charging the customer more. In the industry with which I am associated, historical depreciation constitutes approximately 7 per cent. of sale price. The choice of the two methods would therefore be a choice between an immediate price increase of 63 per cent. and a deferred price increase of 21 per cent. Even if the legislature could be persuaded to give tax relief, the "replacement reserve" method would impose an immediate increase of over 30 per cent., as against a deferred increase of 21 per cent.

It is not my wish to introduce political considerations into a professional discussion, but I feel that only the most optimistic reader could expect the Government to give tax relief in circumstances which would encourage an immediate inflationary pressure, and whose main advantage would appear to be the maintenance of capital at a static level while wages and profits rise.

It appears to me to be economically desirable that both during inflation and deflation the capital of a business should move in harmony with the other factors of production.

Perhaps your readers have other views?

Yours faithfully,

Inflation—ad nauseam.

Edinburgh,
April 13, 1950.

Foreign Earned Income

Sir,—In my article on income tax which appeared in the April issue of your journal (pages 124-129), I stated that the "Remittance Basis" always applies in the case of foreign earned income.

This statement—though technically correct—has apparently caused some confusion of thought amongst your readers, and in order to avoid further midunderstanding perhaps you would allow me an opportunity to explain.

There are two questions to be considered:

(*a*) whether or not a particular receipt of an income nature is foreign income, and

(*b*) whether, if it is foreign income, it comes within those categories which are assessable on the remittance basis.

The second question gives rise to little difficulty. The scope of the remittance basis is clearly defined in the Acts, and resembles the definition of earned income so closely that as a generalisation it may be said: The remittance basis always applies to foreign income which is earned income (or which would be earned income if the taxpayer were an individual).

The first question is more difficult. The test is to look for the locality of the source of the income. It frequently happens that receipts of an income nature may arise abroad from transactions entered into abroad which nevertheless will not be foreign income because the source of income is situate in the United Kingdom.

The following illustrations may clarify this matter:

(1) A, a partner in a firm of professional accountants carrying on business in the United Kingdom, visits America to transact some business in New York on behalf of his firm, and earns for his firm the sum of $10,000.

The source of the income is the partnership practice in the United Kingdom, and thus the $10,000 earned in America would be regarded as part of the normal profits of the partnership assessable under Case II and would not be foreign earned income.

(2) B, an Englishman resident in the United Kingdom, is a partner in an American firm of public accountants controlled in New York.

The source of the income is the partnership practice in New York, and B's share of the profits would be foreign earned income and assessable on the remittance basis.

(3) C, an Englishman resident in the United Kingdom, is the sole owner of a business in Canada (not a company), and receives from his manager in Montreal regular monthly reports on the progress of the business. He may not exercise control over the business in fact but, as he has the power to do so, he is assessable under Case I on the whole of the profits arising, whether remitted or not.

Such profits are not foreign earned income but rather the profits of a trade or business carried on in the United Kingdom.

(4) D, an Englishman resident in the United Kingdom, has a wide knowledge of the tourist industry. While on a visit to Bermuda he is invited to join the board of an hotel company there. He never attends board meetings in Bermuda but sends advice on tourist matters from London by air mail. His director's fee is paid to the Bermuda agent of his London bankers.

The remuneration is foreign income and assessable on the remittance basis, although all the work to earn the remuneration is done in London. The source of the income is the employment in Bermuda, where the contract of service was made and where the remuneration is paid.

In conclusion, I may perhaps point out that the generalised definition I ventured to give of income taxable on the remittance basis, by comparison with the definition of earned income, is a rough guide only and is not without exceptions.

One such exception is encountered in a case of an individual resident in the United Kingdom who is a "sleeping partner" in a foreign partnership.

His share of profits is not regarded as within the definition of earned income for the purpose of earned income relief; but it is nevertheless taxable on the remittance basis (the effect of the old case of *Colquhoun v. Brooks*, 1889, 2 Tax Cases, page 490, has not been disturbed by the new definition in Section 19 of the Finance Act, 1940).

Yours faithfully,

Ernest Evan Spicer.

London,
April 17, 1950.

Directors' Travelling Expenses

READERS WILL WELCOME THE FOLLOWING notes issued by the Board of Inland Revenue on the treatment of directors' travelling expenses under Part IV (Sections 38 to 46) of the Finance Act, 1948.

1. The treatment of directors' travelling expenses for tax purposes has recently been under review by the Board of Inland Revenue. The following notes set out the current practice of the Department, which is being applied generally by Inspectors of Taxes for 1949-50.

"Travelling expenses" for the purpose of these notes includes reasonable hotel expenses, where incurred.

General principle

2. The general principle is that the expense of travelling from home to business is not allowable as a deduction in assessing the remuneration of a director, but that expense necessarily incurred in travelling on business is allowable.

Where travelling expenses are met for a director by the company but, if an assessment were raised under Part IV of the Finance Act, 1948, an equivalent amount would be admissible as a deduction, the local Inspector of Taxes notifies the company in the ordinary course under Section 42 that the Act will not be applied.

Duties at one place

3. A director who performs the duties of his office at one particular place is not entitled to any deduction for the expense of travelling to that place, and is assessable on the amount of the expense if it is met for him by the company.

Duties at more than one place

4. If a director of a company is required to carry out duties for that company at more than one place, any expense necessarily incurred in travelling between those places in carrying out his duties is allowable as a deduction.

A whole-time director of a company may therefore be allowed a deduction for the cost of travelling between (*a*) the place where he normally works and (*b*) the place where directors' meetings are held and any other places he is required to visit solely for business purposes.

Similarly, a part-time director of a company may be allowed a deduction for the cost of travelling between the place where he carries out his duties as a director of that company (that is, normally, the place where the Board of directors meet) and any other place he may require to visit in performing his duties (for example, the company's works). A part-time director of a company who performs substantial duties for the company at some place other than where the Board of directors usually meet may be allowed a deduction for expense involved in travelling from that place to attend Board meetings.

Groups of companies

5. A director (whether whole- or part-time) of two or more companies within a group of parent and subsidiary or associated companies, whether or not entitled to separate remuneration from each of the companies of which he is a director, may be regarded as having one place at which he normally acts as a director of companies within the group, and as entitled to a deduction for expense necessarily incurred in travelling from that place to other places on the business of the group in the course of his duties as a director. The same principle applies to an individual who is an employee of one company and a director of another company within the same group of companies.

By "associated company" is meant a company on whose Board the group is represented because of the group's shareholding or other financial interest.

Unpaid directors of certain types of company

6. A director who gives his services without remuneration to a company not managed with a view to dividends (for example, a company owning a hall or sports ground, or running a club) is not regarded as assessable in respect of any travelling expenses paid to him.

Directorship held as part of a professional practice

7. A directorship may be held as part of a professional practice, and not (for example) because of some direct or indirect financial interest in the company. In such cases, expenses incurred by the director in carrying out his duties are regarded as allowable as a deduction in assessing the profits of the practice under Schedule D, whether the practice is carried on alone or in partnership.

The remuneration as director is assessable under Schedule E in the normal course. The local Inspector of Taxes will, however, be prepared to agree that reasonable expenses paid to the director by the company shall not be assessed on the director under Schedule E where no claim is made to a deduction under Schedule D.

These notes make it even clearer than it was before that the 1948 Act is unduly harsh.

The position of part-time directors in respect of the refund of the expenses of attending board meetings (as commonly provided for by the Articles) is still unhappy. Such circumstances appear to come under paragraph 3 of the notes. Is the last sentence of the third sub-paragraph of paragraph 4 a possible way out, in that if the company requires the part-time director to do substantial duties at home, his expenses from there to the company's offices can be met? We think this would be difficult to sunstantiate.

This is a question that ought to be clarified by Parliament. The Inland Revenue must apply the law as it stands, and it is clear: expenses of travelling from home to work are not allowable expenses of a director (or anyone else except under paragraph 6 above). We hope that commerce and industry will not be denied the services of the best people because they lose money by becoming directors.

Take the case of a man appointed a director of a company at a fee of £500, whose income is already £8,000. The fee will attract £412 10s. in income tax and sur-tax, leaving £87 10s. If the director has to travel from Manchester to London twelve times a year to attend board meetings, involving a stay of one night on each occasion, his expenses will be at least £100, tax on which is £82 10s., leaving him £5 for his work. If his income were already £12,000, his additional tax would be £462 10s. plus £92 10s., leaving him out of pocket to the extent of £55; while if he had already an income of £20,000 or more, he would be £85 out of pocket.

Any man with an income attracting sur-tax has to consider the marginal return in any case, but the added burden of having to meet tax on out-of-pockets is intolerable.

The company cannot correct the position by a tax-free payment of expenses, because Section 189 of the Companies Act, 1948, forbids such payments.

The position of a professional man

appointed as a director is usually happier, coming under paragraph 7 above. Even he, however, may come under the difficulties mentioned, because it is held that his directorship is not part of his professional practice. Care must be taken in the terms and duties of the appointment!

Finally, while the official view is not always the last word, we doubt whether there is much hope of any early departure from the views expressed in the notes of the Inland Revenue.

Taxation Notes

Blocked Earnings

The Internal Revenue Bureau of the United States of America has announced that U.S.A. citizens earning foreign currency which cannot be converted into dollars will be allowed to defer payment of U.S.A. income tax on those earnings until they become readily convertible.

In the United Kingdom the position is that income tax on foreign profits becomes due whether the profits are remitted or not (except under Cases IV and V for (*a*) persons not domiciled in the United Kingdom; (*b*) British subjects not ordinarily resident in the United Kingdom; (*c*) income from investments of the foreign life assurance fund of an assurance company; (*d*) income derived by a person from the carrying on by him of a trade, profession or vocation either solely or in partnership; and (*e*) income arising from any office, employment or pension, to all of which the remittance basis applies). Many foreign profits are assessable under Cases I or II because the control is in this country.

The tax on foreign profits assessable on the amount arising, whether remitted or not, becomes due and payable in the usual way, and the Treasury will allow postponement of payment only if hardship can be shown. In such cases the taxpayer has commonly been required to set aside in foreign currency, at a suitable bank in the foreign country, to the credit of the British Inland Revenue an amount approximating to the tax due.

The United Kingdom method seems reasonable provided it could be made a little easier; no company or other taxpayer should be required to pay tax on inconvertible foreign currency otherwise than out of that currency as and when it becomes convertible.

Indian Income Tax—Dominion Income Tax Relief

The computation of the relief in the United Kingdom in respect of dividends paid by Indian companies to persons not resident in India has to await the receipt of the repayment by the Non-Resident Refund circle. In the meantime, the British Revenue authorities will give provisional relief, to be adjusted when the Indian figures are available.

The following is a typical computation for 1949-50:

Year ended March 31, 1949:

	Rupees Ans
Gross Indian Income	1,500
Indian Tax	375
Less Refund	150.1
	224.15

Sterling equivalent:

Income	£90 gross
Tax	£16 17 6
Indian Rate $\frac{£16\ 17\ 6}{90}$	= 3s. 9d.
Assessment (Case V), 1949-50	
£90 at 9s.	£40 10 0
Dominion Income Tax Relief, £90 at 9s. ..	16 17 6
	23 12 6
Tax provisionally assessed and paid (provisional relief at 4s.), £90 at 5s... ..	22 10 0
Undercharge ..	£ 1 2 6

The undercharge may be collected, but is commonly carried forward to be adjusted with the next assessment.

Foreign Profits

Submissions were made to the Tucker Committee at the last of its sessions, held on March 28 to 31, that it was wrong to regard as income for United Kingdom taxation currency profits which could not be remitted to this country owing to exchange regulations; it was urged that they should be assessed at the sterling value obtainable when they were freed for remittance. This is on the same line of thought as that in the preceding note "Blocked Earnings."

A further submission was that United Kingdom tax should not be charged on foreign profits reinvested locally; here again, it was argued, a charge should only be made when the profits were remitted to the United Kingdom. The argument was that a branch establishment abroad should be in the same position as a subsidiary company controlled abroad where, owing to restrictions on non-resident shareholders, oppressive taxes and other regulations in certain countries, it was impracticable to carry on business otherwise than through a branch. It was admitted that if double taxation agreements became general the argument for helping overseas branches would be less valid, but at present there were such agreements with only three countries outside the Commonwealth. Much of the grievance would disappear if the tax were made payable in the currency in which the profits were made; that would be the simplest solution. Holding assessed tax in abeyance till remittance was possible would meet the difficulty, provided that interest was not charged, as it is at present, and the conversion was at the realised rate of exchange.

Stock Valuations

Suggestions to the Tucker Committee here were that precise rules were not necessary; the taxpayer's method of valuation should be passed provided: (1) it was in accordance with the custom of the trade; (2) it was applied consistently from year to year; and (3) it resulted in a fair view of the profits or losses of the relevant periods. The final decision on any appeal on stock valuation should be that of the Appeal Commissioners, with no right of further appeal to the Courts. The chairman said that the "pick and choose" method had now been blessed by the Courts and presumably General Commissioners would follow the same general principle. It appears to have been agreed that the three principles mentioned were all that was needed. Possible reserves for inflated prices were discussed.

Group Assessments

The proposals put to the Tucker Committee to allow the same options for group assessments as apply to profits tax gave rise to a discussion of the complications, particularly in relation to "outside" shareholders, carry-forward of losses and unexhausted capital allowances. Small concerns were interested as well as big ones, as the small ones had not the same facilities for arranging service charges and other expedients to avoid "red" figures.

Losses

The removal of the time limit for carrying forward losses was coupled with proposals before the Tucker Committee that "Case VI losses" be made available against any income, and that the taxpayer have the option to carry losses back for six years. Abuse might result in a few cases by "selling losses." The committee took an additional note regarding the absence of right of appeal to the Court under Section 34.

Profits Tax

Under this heading it was suggested to the Tucker Committee that:

(*a*) The whole-time service director's maximum shareholding be raised to 20 per cent.

(*b*) The limit of directors' remuneration in a controlled company be raised materially.

(*c*) It was inequitable that the equity shareholders should bear the whole of the profits tax; fixed preference dividends ought to be allowable deductions in computing profits in the same way as interest.

(*d*) Investment income should only be charged in the case of investment and similar companies.

P.A.Y.E. New Regulations

(The Income Tax (Employments) Regulations, 1950; 1950, S.I. 453.) The new regulations, which came into force on April 6, 1950, consolidates the 1944 Regulations with the numerous amendments made since, while introducing some new matter. The most important amendments are:

(*a*) A right of appeal against a coding to the General Commissioners for the division in which the *coding* was determined as an alternative to an appeal to the Commissioners for the place of residence.

(*b*) Sanction to the practice (which was not statutory) of reducing a code number found to be incorrect where it is necessary to avoid under-deductions of tax. Right of appeal is provided.

(*c*) It is made clear that an employer has to make a separate return on the tax deduction card, or substitute document, for each employee in respect of whom a tax deduction card has been issued by the Inspector or prepared by the employer, or to whom the employer has at any time during the year paid emoluments at a rate equivalent to £3 or more a week (£12 10s. or more a month), or, in the case of an employee having other employment, over £1 a week (£4 a month).

(*d*) Returns by a limited company may be signed by a director instead of the secretary. (The practice of accepting this was extra-statutory.)

(*e*) An alternative right of appeal against an assessment to the General Commissioners for the division in which the appellant resides.

While the Regulations should be at hand, it is the "Employers' Guide" to which reference is normally made by the employer. This gives effect to the Regulations in a handy manner.

Two Inland Revenue Prosecutions

Three company directors were recently sentenced at Leeds Assizes for an attempt to defraud the Inland Revenue of £33,665 over a period of seven years. Prosecuting counsel showed that there were large discrepancies in the accounts, including the stock figures. The sentences were to imprisonment of 21 months, 15 months and three months. Defending counsel made no personal attack on the honesty of the defendants' accountant; the Commissioner said that the accountant was not as careful as he might have been but it was the responsibility of two of the defendants to see that a full disclosure was made.

Two company directors and a former partner in a firm of Chartered Accountants were charged at Manchester with conspiring to defraud the Inland Revenue of income tax and excess profits tax, and were committed for trial at the next Manchester Assizes. It is alleged that stocks were undervalued by £162,099 for the years 1940 to 1945 and that profits over the same period had been further underestimated by £26,189 by the carry-forward to the succeeding year of sales made in the last quarter of each year from 1941 to 1946.

The Budget is dealt with in an article on page 151 and in the Editorial on page 149.

A Professional Note on "Unqualified 'Tax Experts'" appears on page 147.

Recent Tax Cases

By W. B. COWCHER, O.B.E., B.LITT., Barrister-at-Law

Income tax—Deduction of excess profits tax in computing income tax liability—Amount of E.P.T. payable in respect of one chargeable accounting period reduced by subsequent deficiencies—Whether deduction to be the amount of E.P.T. payable or amount actually paid—Effect of deficiency reliefs—Income Tax Act, 1918, Sch. D, Cases I and II, R. 4—Finance (No. 2) Act, 1939, Sections 15 (2), 18 (1), 21 (1).

C.I.R. v. *John Dow Stuart, Ltd.* (House of Lords, December 14, 1949, T.R. 425) was noted in our issue of September, 1948. The Court of Session had affirmed a decision of General Commissioners that under the provisions of Section 18 (1) of the Finance (No. 2) Act, 1939, the amount to be deducted was the amount of E.P.T. *payable* in respect of the chargeable accounting period and not the amount *paid* as under the parallel provisions of the old excess profits duty. In the House of Lords, with Lord Morton of Henryton dissenting, the decision of the Court of Session was affirmed. The dissenting judgment contains tabular statements showing the comparative results of the two methods and from these it would seem that the net loss to the Revenue is less than appeared from the earlier judgments, consisting apparently in the differences between rates of income tax in the various years of assessment.

E.P.T.—Statutory percentage of interest on capital—Whether company director-controlled—Powers of attorney given by shareholders to director—Whether under company's articles of association voting power thereby transferred to director—Finance (No. 2) Act, 1939, Section 13 (9)—Companies Act, 1929, Table A, Clause 61.

C.I.R. v. *James Hodgkinson (Salford), Ltd.* (C.A., November 16, 1949, T.R. 389) was noted in our issue of September, 1949 (page 248). The Special Commissioners had held that the company was director-controlled; Croom-Johnson, J., had reversed their decision, and a unanimous Court of Appeal endorsed his opinion. The facts in the case were special, and it does not call for extended notice.

Stock received by company for sale of its undertaking—Distributed as special capital profits dividend—Whether stock capital or income in hands of testatrix's Trustees.

The case *Re Sechiari* (1950, 1 All E.R., 417) was reported in Legal Notes on page 140 of our April issue.

The position as regards income tax and sur-tax in such cases depends upon whether the distributing company is resident in the United Kingdom or abroad. In the former case, if the money distributed was not taxable as income in the hands of the recipient company it will not be "income" in the hands of the recipient shareholders. In the latter case if it is a "dividend" it will be taxable under Case V irrespective of the nature of the source. The question was before the House of Lords in *C.I.R.* v. *Trustees of Joseph Reid, Deceased* ((1949), 30 T.C. 431) and was the subject of an extended note in our issue of June, 1949.

The Student's Tax Columns

THE INDIVIDUAL'S INCOME TAX ALLOWANCES

One of the oft-quoted canons of taxation is equality of sacrifice. It follows from this canon that higher incomes should be more heavily taxed than smaller incomes. The sur-tax is one of the instruments for achieving this result. At the other end of the scale, a man must be left with enough to exist on. Briefly, there we have the reasons for "allowances." These are given to the individual who has completed a Return of his total income and claimed the allowances by filling in the necessary details in the appropriate portion of the form. The allowance is given by deducting from statutory total income the amount in question; that is, an amount equal to the allowance is freed from income tax.

EARNED INCOME ALLOWANCE

A deduction of a fraction of the earned income is allowed. This is at present one-fifth. A maximum is fixed which now operates on an income of £2,000. In the case of a married couple the maximum operates at £2,000 of joint income, not separately on each income.

If expenses or superannuation contributions are deductible from earned income, only the net earned income is eligible for the allowance.

Moreover, where the taxpayer has annual payments to meet, for example, interest on loans, and his unearned income is insufficient, the excess of the annual payments over the unearned income obviously comes out of earned income. The earned income allowance can only be given on the earned income that is left after deducting such an excess, as a man can only expect allowances against income of his own.

Illustration. Salary £600, less superannuation 5 per cent. Unearned income £200; loan interest payable £250. This man only enjoys £520 income, thus:

Salary	£600	
Less Superannuation ..	30	
		570
Annual payments ..	£250	
Less Unearned income ..	200	
		50
		£520

He is therefore able to claim allowances against £520 only. It would never do to give him allowances against more, or he would make a profit out of income tax. This limitation applies to all allowances, not only the earned income allowance.

OLD AGE ALLOWANCE

It is recognised that a man who has saved up enough on which to retire out of his earnings would be penalised if the income from such savings were to be regarded as unearned. Accordingly, a deduction is allowed of a fraction, equivalent to that in force for the earned income allowance, of the statutory total income, subject to these limitations:

(*a*) The taxpayer (or, if he is married, *either* he or his wife living with him) must be of the age of 65 or over at the commencement of the year of assessment;

(*b*) The statutory total income must not exceed £500.

A marginal relief is provided, however, for incomes slightly over £500, in that, by adding to the tax payable on £500 a stated fraction (which varies from time to time) of the excess of the income over £500, the calculation of liability proceeds as if the income were exactly £500. At present the fraction is five-eighths.

It will be noted that the taxpayer does not get both earned income and old age allowances; the latter overrides the former.

ASSESSABLE INCOME

This is the term used to denote the amount of income remaining after deducting from statutory total income the earned or age allowance, whichever is relevant.

PERSONAL ALLOWANCE

A deduction is allowed to every individual of an amount which has varied from time to time. In the case of a married man, the deduction is increased, provided his wife is living with or maintained by him, but it is not equivalent to twice the single allowance; at present the allowances are £110 single, £180 married.

ADDITIONAL PERSONAL ALLOWANCE

If the wife, living with or maintained by her husband, has earned income of her own, there is allowed, as an addition to the personal allowance, a fraction of her earned income. This is invariably the complement to the earned income allowance, for example, when as at present the earned income allowance is one-fifth, the additional personal allowance is four-fifths. The maximum additional personal allowance is £110. (The common appellation of this allowance—misleading to students—is "wife's earned income relief.")

CHILD ALLOWANCE

An allowance (at present £60) is given for each child of the taxpayer living at any time during the year of assessment, subject to the following conditions:

(*a*) The child must be under the age of 16 at the commencement of the year of assessment, or

(*b*) If over that age, be either—

(i) receiving full-time instruction at any university, college, school or other recognised educational establishment; or

(ii) undergoing training for a trade, profession or vocation, in such circumstances that—

(1) He is required to devote the whole of his time to the training for a period of not less than two years, and

(2) while undergoing the training, the emoluments (if any) payable by the employer in respect of the child do not exceed £13 a year, exclusive of any return of premium.

(Until the premium has been returned in full, there are no emoluments. The term emoluments includes the value of free board, lodging or clothing.)

(c) The statutory total income of the child must not exceed an amount equal to the child allowance. Scholarships, bursaries and similar eductional endowments and, of course, voluntary allowances from parents, etc., are *not* income of the child for this purpose.

The allowance is given for a stepchild, but not for an illegitimate child unless legitimated by the subsequent marriage of the parents. It is also given for any other child (for example, an adopted child) of whom the taxpayer has the custody and maintenance, provided no other individual is obtaining allowance for that child.

When two persons are entitled to allowance for the same child (e.g., where the husband and wife are separated or divorced, or a husband dies so that the widow has a claim in the same year) the allowance is divided between them as they may agree, otherwise in proportion to their respective contributions (in cash or kind) to the child's maintenance and education.

HOUSEKEEPER ALLOWANCE

This is a deduction of £50 allowed to a widower (or widow) under the following conditions :

(*a*) The person in respect of whom the claim is made must reside with the claimant, either as housekeeper or to look after children for whom the claimant gets child allowance ;

(*b*) The housekeeper (using the term to cover one working in either of the above capacities) must be either a female relative of the claimant (or of his or her deceased spouse) or, if no relative is able and willing to act, another female employed for the purpose ;

(*c*) No other individual is claiming any deduction for the same person ; e.g., if she is married, her husband must have relinquished his claim to personal allowance as a married man ;

(*d*) The claimant cannot claim for more than one allowance for a housekeeper in any one year ;

(*e*) The housekeeper allowance cannot be claimed in any year in which the claimant gets a married man's personal allowance (e.g., in the year in which his wife dies).

A married man whose wife is totally incapacitated is entitled to the allowance for a female person resident to look after children.

The housekeeper allowance is also given to an individual not entitled to the married allowance in the following conditions :

(i) The housekeeper is his mother, being a widow or living apart from her husband, or some other female relative.

(ii) The housekeeper must be maintained by the claimant at his own expense.

(iii) For the purpose of having the care and custody of any brother or sister of his in respect of whom he is entitled to the child allowance.

(iv) He cannot claim allowance under any other heading for the same person.

A man can obtain the allowance under this last group if he has any female housekeeper to look after children for whom he gets allowance, but a woman can only claim if she is totally incapacitated or in full-time employment or business.

DEPENDANT RELATIVE ALLOWANCE

(i) This is a deduction of up to £50 for each dependant maintained by the claimant, provided that the dependant is :

(*a*) A relative of the claimant or his wife and incapacitated by old age or infirmity for maintaining himself or herself ; or

(*b*) His or his wife's widowed mother.

In the above cases, no allowance is given if the dependant's statutory total income exceeds £120. And if the relative's income exceeds £70 the allowance is reduced to the difference between that income and £120, e.g., if the income is £90 the allowance is £120 − £90 = £30. If two or more persons jointly maintain a dependant the allowance is shared proportionately. Where the contribution to maintenance is less than £50 the allowance cannot exceed the contribution. The dependant need not be resident with the claimant.

(ii) Again, if the taxpayer, by reason of old age or infirmity, is compelled to rely on the services of a daughter *resident* with and maintained by him or her, the allowance of £25 is given (irrespective of the daughter's income).

(iii) If in the application of the "Means Test" for national assistance the taxpayer is deemed to maintain (wholly or partly) a relative living with him, and he does not get any of the above allowances in respect of that relative, he is entitled to a deduction, not exceeding £50, equal to the amount he is deemed to contribute to the relative's maintenance.

TAXABLE INCOME

This is the income remaining after deducting from statutory total income such of the above allowances as apply. Tax is charged thereon, on a stated portion at the reduced rate, and on the balance at the standard rate.

REDUCED RATE ALLOWANCE

Reduced rate allowance is the term applied to the difference between the standard and reduced rates. At present, the first £50 is taxed at 3s. in the £, the next £200 at 6s. in the £, while the standard rate is 9s. in the £.

LIFE ASSURANCE ALLOWANCE

Relief is given in respect of premiums paid on life assurance policies, under the following conditions :

(*a*) The life assured must be that of the claimant or his wife ;

(*b*) The premiums must be paid by the claimant or his wife ;

(*c*) Any sum which the claimant is liable to pay, or have deducted from his salary, to secure a deferred annuity to his widow or provision for his children is eligible for the allowance ;

(*d*) Except for (*c*) the contract must be with an insurance company legally established in the British Empire, or lawfully carrying on business in the United Kingdom, or with a registered friendly society or in the case of (*c*) with the National Debt Commissioners. (Underwriters who have complied with the Assurance Companies Act, 1909, also "count.")

Note the following limitations :

(i) If a premium exceeds 7 per cent. of the sum payable at death, allowance is *not* given on the *excess* ;

(ii) If the total premiums permissible under (i) exceed one-sixth of the statutory total income of the year of assessment, allowance is *not* given on the *excess*.

(iii) If no capital sum is assured payable at death (*a*) relief will be given only if the policy was taken out either before June 23, 1916, or in connection with certain superannuation or

pension schemes, and (*b*) relief will *not* be given on any premiums in excess of £100 in all.

(iv) Only premiums *paid* in the year rank for the allowance.

(v) If premiums paid exceed the taxable income, no relief is given on the excess.

The rate of allowance depends on the date of the policy. If this is dated after June 22, 1916, relief is given on the allowable premium at two-fifths of the standard rate. Effect is given to this by deducting two-fifths of the premium from the taxable income before calculating the tax due; if the total premiums are under £25, the amount deductible from taxable income is the amount of the premiums or £10, whichever is the lower sum.

Where a policy was dated prior to June 23, 1916, relief is given in terms of tax and is at a rate varying according to the amount of total income.

Total Income	Relief at this fraction of the standard rate
Up to £1,000	Half
Over £1,000 up to £2,000	Three-fourths
Over £2,000	Whole

It should be noted that the special standard rate of 7s. is adopted for life assurance allowance, except in (*c*) above, where the current standard rate applies.

To meet borderline cases, a special relief (*marginal relief*) is given. Where more tax would be paid if the income were just under £1,000 (or £2,000) then if it were just over it, the allowance on premiums will be increased by one-fourth of the standard rate (of 7s.) (i.e., treated as if the income were over the limit), but there will be deducted from the relief tax at the standard rate (of 7s.) on the amount by which the total income falls short of the limit.

EXEMPTION OF SMALL INCOMES

A lower limit is placed on the amount of income to be liable at all. This is now £135. A marginal relief operates in that if the total income is over £135 but under £160 the tax is not to exceed three-tenths of the excess of the income over £135.

Publications

THE LAW OF INCOME TAX. By E. M. Konstam, C.B.E., K.C. Eleventh edition. (*Stevens & Sons, Ltd., and Sweet & Maxwell, Ltd., London. Price £8 8s. net.*)

Four years have elapsed since the tenth edition of *Konstam* was published. In the new edition not only is there the inevitably large amount of new matter but radical changes of form have been made. It is now divided into two volumes, Volume I, a bound volume, containing Tables of Statutes and Cases, 529 pages of text and an index of 82 pages, while Volume II comprises in loose-leaf form Statutes and Regulations, including a division for double taxation Orders. The first section of the second volume is reserved for "Annotations," being the author's future commentary upon existing and new matter proper to Volume I. The system of consecutively numbered paragraphs now generally used where the law is in a state of continued flux has been adopted throughout both volumes, and a method of "Service Releases" instituted under which the subscriber who pays 30s. per annum will be able to keep the book up to date until a new edition is issued.

The issue price of eight guineas is a high one; and, inasmuch as a continued spate of new law and new cases is inevitable, the "Annotations" division of Volume II must assume large dimensions and increasing importance. A supplementary index will also be needed. Double reference is a nuisance at all times and a reprint of Volume I will be called for before many years have elapsed if *Konstam* is to retain its undoubted value to accountants with much income tax work and as a work of reference for the legal profession in general. The opinion may here be hazarded that it would be advantageous to everyone, including the author and his publishers, if those who buy the work and also subscribe for "Service Releases" were to be entitled to receive at small cost any fresh issue of Volume I. What the accountancy and legal professions need is a work of the standing of *Konstam* which, in return for a reasonable annual subscription, will be rejuvenated when necessary.

The new edition preserves the essential features of the original work. Whilst the perfect legal text-book has yet to be published, *Konstam* is still distinguished by its remarkable conciseness, and the decisions in as many as five cases may be found within the compass of a single sentence. The text of Volume I is divided into twenty chapters, each of which is preceded by a vertical list printed in bold type and widely spaced, in which are set out the paragraphs contained in the chapter with their respective headings. As a result, reference is decidedly easier than where the contents of a chapter are set out horizontally in small type. An increase in the number of sub-headings would, however, be an improvement, although, even now, there are few legal text-books of equal importance possessing to a greater degree the virtue of ready reference. Nevertheless, the method of concise summary of cases adopted has its drawback: and a text which consists largely of decisions on facts stated with the minimum of words is not too suitable for the student and will often occasion disappointment to the practitioner genuinely eager to learn what *Konstam* says upon his problems.

One result of the author's method is that there is frequently not as much elucidation of "income tax principles" as is desirable and the wood is often obscured by the trees. For example, one of the effects of the decision in the leading case of *Ryall* v. *Hoare* (8 T.C. 521) was to make it almost impossible to escape liability to tax in respect of money or money's worth received if there is present any element of services rendered. In the author's note upon that case and upon other cases in the same sentence there is no setting-out of this ruling principle; and not only is the reader left to deduce it for himself but the word "services" is not to be found in the index. Another illustration of this weakness is presented by the author's treatment of "isolated or casual transactions," a subject which, with Rule 9 of Schedule E excepted, probably produces problems more difficult and in greater measure than any other. The author says, of course quite rightly, that the test is whether or not a trade has been carried on but he does not stress the importance of "intention" as a determinant of this. "Primary intention" is here often of vital importance; but this is not brought out in the text and "intention" does not appear in the index. It may be difficult of proof in the case, say, of a man

who makes purchases of jewellery and after short personal use sells at a profit—or maybe at a loss—but it may be otherwise in different circumstances as in the *Rutledge* case, where Lord Sands remarked that the nature and quantity of the subject dealt in excluded any suggestion that it was other than a trade transaction. The recent decision in *Cooksey and Biddle* v. *Rednall* is an illustration of the same principle; but, although the decision is noted in paragraph 77, the "why" is not shown.

The question of expenses in relation to Schedule E, always a vexed one, has become much more so following recent legislation; and Rule 9 is as important as it is unsatisfactory. *Ricketts* v. *Colquhoun* is, of course, the most important case; and the principles established there, which are inadequately elucidated in the text, are in constant operation. Summing up this criticism of the book, it may be said that where the author does set out to elucidate he does it, normally, at least as well as any other writer, but that he does not do enough of it. Lists of bare legal decisions are of little value except where, as rarely happens, the facts of the case in hand are exactly similar to one listed; and it is often impossible to know from the text which cases are "leading" and which merely "following."

As regards mistakes and omissions, inevitable in such a work, an extensive sampling revealed a few. There is a slip in regard to Rule 21 of the General Rules in paragraph 4 where it is stated that the payer of interest not wholly payable out of taxed profits is "entitled to deduct tax," whereas the Rule uses the important words "shall deduct" and the compulsory nature of this is clearly shown in paragraph 219. A somewhat similar mistake is made in paragraph 207 where, referring to *Glamorgan Quarter Sessions* v. *Wilson*, "power to deduct" should read "duty to deduct," the liability to assess directly not existing where Rule 19 with its power to deduct is operative. Again, whilst in regard to annuities the difference between Rules 19 and 21 as regards the appropriate rate of deduction is shown, this is not made clear in paragraph 219 with regard to interest payments. There is another error in paragraph 283, where a statement in the text based on *Last* v. *London Assurance Corporation* overlooks the fact that the law was altered by Section 16 of the Finance Act of 1923, and the liability of participating policyholders in respect of their "profits" then ceased. On page 47, paragraph 33, footnote No. 21, in so far as it relates to the decision in *Pearl Assurance Co., Ltd.* v. *O'Callaghan* is inadequate and though correct in strict law is misleading. In dealing with the question of plant, machinery, etc., the reviewer has found no reference to the fact that, in lieu of claiming allowances for wear and tear under Rule 6 to Cases I and II of Schedule D, the taxpayer may claim the cost of replacements and renewals under Rule 3 (*d*) of the same set of Rules (*C.I.R.* v. *Great Wigston Gas Co.*, 1946, 29 T.C. 197).

The chapters on administration show once more that without the help of someone with actual administrative experience it is virtually impossible for any writer on income tax to set out satisfactorily what may be called "the living law." In paragraph 393, for example, it is stated that the returns of income made by taxpayers are delivered by the Inspector to the General Commissioners. This has never been the case. Prior to the Finance Act, 1927, the legal but usually not the factual position was that the returns were delivered to the General Commissioners by the Assessors, but the Inspector had the right of access. Thereafter, as the result of Section 43 (4) of that Act, the boot was put upon the other leg. The Inspectors received the returns but they were to be available to the Commissioners and their Clerk and to the Assessor in so far as necessary for his work. The Income Tax Act, 1918, was a consolidating Act. It consolidated the law both living and dead and, although the "surcharge" survives as a potential Revenue weapon and is treated seriously by the author, in actual fact it has for very many years been as dead as the dodo.

One important point in recent legislation has not been noted. By Section 35 (1) (*b*) of the Finance Act, 1942, the Commissioners of Inland Revenue—not the Inspector—are empowered to require in the case of a return with which they are not satisfied "books, accounts and documents *which contain* information as to transactions." But by Section 35 (2) the power of the Commissioners hearing appeals, i.e., the General and Special Commissioners, to issue precepts under Section 139 of the Income Tax Act, 1918, is extended to enable them to require the production of "books accounts and documents" which, "*in the opinion of the Commissioners issuing the precept*, contain or *may contain information relating to the subject matter of the appeal*." As might be expected, the practice is for the Inspector to ask for a precept under the latter sub-Section, the power given to the Commissioners of Inland Revenue under Section 35 (1) (*b*) being obviously of very limited value in most cases.

Summing up, the new *Konstam* is a very valuable work of reference but it could be improved without the sacrifice of its most valuable distinguishing features. The compilation of such a work is a task of almost overwhelming magnitude for a single author at the present time, but the result is fresh testimony to his legal knowledge and capacity.

W. B. C.

SOCIAL ACCOUNTS AND THE BUSINESS ENTERPRISE SECTOR OF THE NATIONAL ECONOMY. By F. Sewell Bray. (*University of Cambridge, Department of Applied Economics, Monograph No. 2. Cambridge University Press. Price 10s. 6d. net.*)

Mr. Bray has already done much to familiarise us with the idea of the accountant as an applied economist. In *Precision and Design in Accountancy* he wrote:

"And so we arrive at the point where accountancy may be thought of as a systematic record of the working of the economic structure of society in terms of monetary symbols. As it takes on and develops notions of economic order, it gradually points to what *should be* by accuracy of statement in regard to what *is*. The quest for truth and accuracy of statement which are notable tendencies of present-day accounting research are ultimately related to a quest for the common good."

This belief lies at the very roots of his "philosophy of accounts," and it is this which has led him to join hands with those economists who try to summarise the economic activities of a whole community in accounting form. *Social accounting* ("the accounting of the whole community or nation") is to him as much the business of the practising accountant as is *private accounting* ("the accounting of the individual firm"); and in this book he seeks to demonstrate this thesis.

This is, in fact, an essentially practical reconciliation of the economist's idea of social accounts, as applied to business enterprises, with the principles of current accounting practice as applied to the private accounts of those same enterprises. Mr. Bray takes as his starting-point the system of accounts set out by Richard Stone in a memorandum on the *Definition and Measurement of the National Income and Related Totals*, and shows (by way of two reconciliation statements, a statement of current assets and liabilities, and a trial balance), firstly, the reciprocal nature and consistency of the originating accounts and, secondly, how they may be re-set in conformity with accounting conceptions. He freely admits that not all accountants will agree with the technical treatment of some items as placed in his revised structure, but hopes that it will be "readily and easily assimilated both by accountants and economists."

These accounting statements are followed by a valuable chapter devoted to notes on the various items in the system of accounts. In this the author shows conclusively his understanding of the concepts employed by the economist and explains

how his system is related to them. Draft balance sheets, drawn up in conformity with the conventions used in the accounts, are given in the following section of the book; this is an extension of the ideas of the original memorandum which is of obvious importance to studies of national wealth.

Accountants should experience little difficulty with this book; to them the accounting statements will speak for themselves. Economists, on the other hand, may find the technical manipulations of these sections unfamiliar and perhaps difficult to follow; but they will find that they are amply repaid if they will reciprocate, at least in part, the efforts which Mr. Bray has made to master the technicalities of their own language.

One or two small misprints have slipped through. Perhaps the most important is the reversal in Section IX of the two balance sheets referred to as "first" and "second" respectively on pages 9 and 10.

J. E. G. U.

FINANCE

The Month in the City

A Modest Rally

Up to the eve of the Budget speech, prices in the stock market fluctuated gently, usually with a slight upward trend. The exception was in the market for gold mining shares, where despite all efforts to arouse interest there was a moderate decline in quotations. This was doubtless due to some new applications by developing mines for capital and to the prospect of other such demands. The fact that promoters find it worth while to risk money in developing new mines may seem to imply that it is illogical to mark down the quotations for old mines, but much of the new money is raised by selling old holdings.

In general, the rise in the markets, outside that for gold mining shares, made good only a fraction of the modest fall of the preceding month, except that medium-dated and short-dated Government securities recovered the major part of their price decline. This recovery was practically restricted to the few days following the announcement of the good showing of our gold and dollar reserves at the end of the first quarter of 1950. The rise in gilt-edged prices occurred in the face of small issues of stock of trustee status on very favourable terms, and of rumours that a further offer of Electricity stock is in preparation: certainly an offer cannot be long deferred.

The gold and dollar reserve is rather larger than had been expected, but it would be unwise to rely much on changes in it which may well prove of a transient nature. It is also rather surprising that the markets paid attention to this good news but ignored the restive attitude of organised labour towards the wage stop, as reflected in Easter meetings. The fact appears to be that institutions, which have been holding off, decided to invest modest sums before the Budget, perhaps expecting that the Chancellor's news would be favourable. Incidentally, some institutions are also buying ordinary shares. The volume is small in gilt-edged and in industrials, but in a market as restricted as that for gilt-edged securities has lately been any considerable buying was bound to influence prices considerably. None of the many Government publications on the national economic position has had any appreciable effect on the market. The estimate of the *Economic Survey* that company savings will rise further this year produced no repercussion whatever. After the Budget investors in general appeared to show a little more interest, and the net effect upon prices as shown by the indices of the *Financial Times*, comparing March 22 with April 24, was as follows : Fixed interest, a rise from 120.41 to 120.78, Government securities from 104.30 to 105.51, equities 104.5 to 107.4, and gold shares a fall from 133.72 to 129.99. The yield on Old Consols declined only from 3.64 to 3.60 per cent.

Cable and Wireless (Holding)—Reconstruction Plan

The revised scheme of *Cable and Wireless (Holding)* received an overwhelming majority of support from those ordinary stockholders who voted, and it is hoped to complete the re-organisation by early June. Apart from the almost theoretical possibility of its being rejected by the Court, the plan is now subject only to there being received applications for 40 per cent. of the new ordinary stock—and this percentage is almost guaranteed by the interest of *Globe Telegraph* in the existing ordinary and preference capital. It seems rather odd that the ordinary stock stands at a substantial discount below the estimated realisable price of £295, for the new $3\frac{1}{2}$ year stock is to pay 3 per cent. at par. It ought to be possible to realise this at its issue price, if not at a premium. It seems that many brokers are still advising their clients to take the whole of the compensation for ordinary stock in national war bonds and the new $3\frac{1}{2}$ year stock and then to realise them. But those ordinary stockholders of *Cable and Wireless (Holding)* who elect not to liquidate their holdings have the assurance that economies are being made in the company; an earnest of this is that Sir Edward Wilshaw and another managing director are giving up their posts. Sir Edward thinks his earlier estimate of earnings of 6 per cent. on the new ordinary stock of the investment trust to be created may be too modest. It certainly should be borne in mind by the holders of the existing ordinary stock that while conditions are not propitious for the managers of investment trusts, they are, if anything, rather worse for the individual small investor.

Motor Results

The past few weeks have brought a number of interesting company results. Those of *Vauxhall* and *Ford Motors* call for special mention. *Vauxhall* increased its production by 13 per cent. and its trading profit by 25 per cent., notwithstanding rising costs. This betterment of trading results was not achieved without a rise in prices late in the year, and it owes a great deal to the ability to expand exports. *Ford Motors* is less informative on the subject of the volume of production and a reduction in profit margins caused a modest decline in the company's trading profit. So far as can be ascertained, the company did not increase its prices last year. But another factor may explain its differing experience. All motor manufacturers are in large degree assemblers of parts. *Ford's* total purchases made up 71.05 per cent. of its turnover; *Vauxhall's* 66.9 per cent. When it comes to a question of cutting export prices it is evident that these companies are in the hands of their suppliers, and they probably received rather different treatment in this respect. No economies on the remaining 30 per cent. of costs could make either company competitive with producers in a country where there is an all-round realisation of the need for cutting costs of production.

THE METROPOLITAN COLLEGE

An event of interest to many thousands of former students in commerce and the professions is the fortieth anniversary of the Metropolitan College, St. Albans. Founded in 1910, the college was a pioneer in the system of correspondence tuition.

Points from Published Accounts

Shortcomings in Published Accounts

In this section of ACCOUNTANCY recently-published accounts are dispassionately examined, criticism or praise is meted out and, it is hoped, from time to time constructive suggestions are offered. Our aim is both that those who have not the opportunity of the regular handling of the accounts of companies other than their own may keep in touch with current trends in the presentation of accounts and treatment of accounting items, and that we may in a small way help to raise standards of performance in these respects.

The writing of these columns over the months, and the examination of many scores of published accounts which that task entails—only a few of these accounts proving to be the subject of our comments in print—has convinced us that a great number of company accounts fail to fulfil two basic requirements. Firstly, they are drawn up in a form too complicated for the average shareholder—a defect upon which we do not now propose to enlarge. Secondly, and even more important, established practice often leads to the presentation of a quite misleading picture of the net profit—a result about which we have more to say.

The Shareholder's Net Profit

May not this second shortcoming spring from the failure of the Companies Act to define precisely what it means by a "profit"? Is "profit" a trading profit or a net profit? Whichever of these two it may be, how is it to be struck? Failing statutory answers to these questions, only company accountants and auditors can answer them—and it is suggested they would answer them most satisfactorily by considering for whose use the accounts are primarily compiled. They are not compiled mainly for the critical eyes of the rest of the accounting profession, nor for the Inland Revenue or the Board of Trade, nor for the public at large, nor even for the directors of the company. They are compiled for the shareholders, within the letter of the Companies Act. It is from the shareholders' point of view that both the letter and—hardly less important—the spirit of the Act have to be interpreted.

In its issue of March 18 the *Investors' Chronicle* states, challengingly, that there has been a general tendency to overlook the full implications of Section 149 of the Companies Act. It is worth setting out the relevant parts of this Section so that we can decide the validity of the contentions of the journal referred to:

149.—(1) Every balance sheet of a company shall give a true and fair view of the state of affairs of the company as at the end of its financial year, and every profit and loss account of a company shall give a true and fair view of the profit or loss of the company for the financial year.

(2) A company's balance sheet and profit and loss account shall comply with the requirements of the Eighth Schedule to this Act, so far as applicable thereto.

(3) Save as expressly provided in the following provisions of this section or in Part III of the said Eighth Schedule, *the requirements of the last foregoing sub-section and the said Eighth Schedule shall be without prejudice either to the general requirements of sub-section (1)* of this section or to any other requirements of this Act.

The *Investors' Chronicle* contends, briefly, that Section 149 (1) stands on its own and should be interpreted on its own, saying: "Sub-Section 1 insists on a true profit being shown, without defining what a true profit is; sub-Section 2 insists on the provision of the particulars laid down in the Eighth Schedule; and sub-Section 3 gives a warning that mere compliance with the requirements of the Eighth Schedule may not be sufficient to enable a true profit to be disclosed. If sub-Section 3 does not mean, in effect, that provisions are 'above-the-line' items in the determination of a true and fair profit and that reserves are 'below-the-line' items, it is difficult to place upon it any meaning at all."

Some Extraordinary Items Ordinarily Treated

The blame for inadequacy is placed on presentation. The journal instances the *Imperial Tobacco* accounts, which showed a comparative trading profit for 1947-48 after the deduction of £100,161 note discount and issue expenses, an extraordinary debit which was sandwiched in between depreciation, audit fees and interest charges. It also points to the *Unilever* accounts which, in listing charges against trading profit, include a reserve for replacement of fixed assets and actually give this item precedence over interest charges and directors' emoluments. We might also add the example of *Bowmaker*. To the trading profit of the year this company adds £42,668 excess depreciation written off in previous years and recovered on the sale of fixed assets. After the usual deductions a balance of "profit for the year before providing for taxation" is struck. That is not the end of the story, for the ensuing tax deduction includes £32,000 charged against the recovery of excess depreciation. But this fact is not stated in the accounts or the auditors' report, though it is stressed by the chairman. If the chairman had remained silent, for fear of muddling shareholders, they might well have believed that the net profit after tax should be reduced by £42,668 (instead of by £10,668) in order to arrive at a figure for the "true" net earnings of the year.

A Nomenclatural Reflex?

Is not the answer that the ideal which the accounting profession should set before itself is to strike a balance in the profit and loss account which truly represents the net earnings *of the year*, and, further, to put all items extraneous to the year's operations and all extraordinary items in the appropriation account? (See ACCOUNTANCY, December, 1949, page 315.) If there are many non-recurring items they could be summarised conveniently and usefully in a panel—showing the taxation applicable as a single item—and the balance, debit or credit, taken to the appropriation account.

We wonder whether the use of the term "profit and loss account" is largely responsible for the practice of placing in this account all debits and credits not previously disposed of in the trading account, this being done in the belief that the balance of the account *must* be the net profit or loss of the company, whether obtained from the year's operations or in any other way, if the account is not to belie its name. Perhaps renaming the account would defeat this nomenclatural reflex?

Provisions for Renewals—Tax Complications

Trading profits of *Savoy Hotel* fell by roughly 25 per cent. in 1949, but a tax cushion enables the board to repeat the £200,000 provision for renewals and replacements, to take £26,000 to reserve for investment in subsidiary companies, to pay the same dividends, and to add to the carry-forward. The total tax charge is down from £284,792 to £93,000 owing to the scale of repairs and renewals. The company has in the past made heavy provision for renewals, which do not affect the annual tax liability until the money is actually spent. The consequence seems to be that what would otherwise be pronounced fluctuations in profits are ironed out. A rather complicated way of avoiding this outcome would be to create a deferred asset representing the tax reclaimable when repairs and renewals are carried out, and later to write this asset down by the tax reclaimed, instead of reducing to a disproportionately low level the tax currently charged against profits. This suggestion is thrown out merely as a matter of academic interest, and we do not venture to show how this deferred asset should be created, or even to give it a name!

Legal Note

Bankruptcy—Voluntary settlements.

In 1944 M settled certain securities on himself with remainders over. The trustees of the settlement were empowered to buy freehold land and hold it on the terms of the trust. In 1948 M asked the trustees to buy a house in which he could live. The trustees were unwilling to pay from the trust fund the full price asked for the house, £4,250, the investment value being much less than that figure. However, they eventually agreed to buy the house on terms that they provided £3,500 from the trust fund while M himself put up £750 and also paid the costs of the purchase. To complete the transaction, M executed a deed expressed to be supplemental to the original settlement and purporting to bring into the trust funds a further £750: no further money was, of course, actually paid by M to the trustees.

In 1949 M went bankrupt and his trustee in bankruptcy claimed that he was entitled to impeach the supplemental settlement on the ground that it had not been made "in favour of a purchaser . . . for valuable consideration" within the meaning of the Bankruptcy Act, 1914, s. 42 (1). *In re Macadam* (1950, 1 A.E.R., 303) the Divisional Court upheld this claim. The Court said that to make a person "a purchaser" there need not necessarily be a payment in money; there might equally well be a release of a right or a compromise of a claim; but there must be some *quid pro quo*. Here the trustees had given no consideration; all they had done in effect was to make a partial substitution of one trust asset for another. The Court therefore followed the decision in *Re Parry* (1904, 1 K.B., 129) and held that the supplemental settlement was voluntary and could be impeached.

Harman, J., further indicated, without deciding the point, that as the house was not worth £4,250 as an investment the trustees had probably committed a breach of trust. Trustees of other settlements should therefore make sure that the terms of the trust are wide enough to cover them before they buy any property with a "vacant possession" value.

THE SOCIETY OF

Incorporated Accountants

PRELIMINARY EXAMINATION EXEMPTION

GENERAL CERTIFICATE OF EDUCATION

In 1951 the School Certificate and Higher School Certificate are to be replaced by a General Certificate of Education. Details of the proposed change were published in the November, 1948, issue of Accountancy. Subject to any alterations which may subsequently be made in regard to the conditions governing the award of the new certificate, the Council has decided that a General Certificate of Education awarded by a recognised examining body will be accepted for the purposes of exemption from the Society's Preliminary Examination provided:

(*a*) the certificate contains a pass at the ordinary level in: English or English language; Mathematics (not Arithmetic alone), and three other subjects of which one must be History or Geography.

or

(*b*) if either English or Mathematics is taken at the advanced standard, the certificate need only contain: English or English Language; Mathematics (not Arithmetic alone), and two other subjects.

The examining bodies recognised for the purpose of these requirements are:

Cambridge Local Examinations Syndicate;
Northern Universities Joint Matriculation Board;
Oxford and Cambridge Schools Examination Board;
Oxford Delegacy of Local Examinations;
University of Bristol;
University of Durham;
University of London;
Welsh Joint Education Committee.

COUNCIL MEETING

March 29, 1950

Present : Mr. A. Stuart Allen (President), Mr. C. Percy Barrowcliff (Vice-President), Sir Frederick Alban, Mr. Edward Baldry, Mr. R. M. Branson, Mr. Henry Brown, Mr. A. H. Edwards, Mr. M. J. Faulks, Mr. Alexander Hannah, Mr. L. C. Hawkins, Mr. Walter Holman, Mr. H. O. Johnson, Mr. D. R. Matheson, Mr. A. E. Middleton, Mr. Bertram Nelson, Mr. T. H. Nicholson, Mr. James Paterson, Mr. F. A. Prior, Miss P. E. M. Ridgway, Mr. Henry Smith, Mr. R. E. Starkie, Mr. Joseph Stephenson, Mr. Percy Toothill, Mr. Richard A. Witty, Sir Richard Yeabsley, and the Secretary and Deputy Secretary.

THE LATE MR. CHARLES HEWETSON NELSON

The President referred with deep regret to the death of Mr. Charles Hewetson Nelson on March 15, and paid a warm tribute to his work for the Society. The Council adopted the following resolution:

> The Council of the Society of Incorporated Accountants and Auditors has learnt with profound sorrow of the death of Mr. Charles Hewetson Nelson, Fellow, Liverpool, who was a member of the Council for 46 years; Vice-President from 1910 to 1913 and again in 1935 during the Fiftieth Anniversary celebrations; President from 1913 to 1916; and since 1946 an Honorary Member of the Society. The Council tenders to members of Mr. Hewetson Nelson's family its sincere sympathy in the great loss which they have sustained. The Council expresses the heart-felt gratitude of Incorporated Accountants for Mr. Hewetson Nelson's work for the Society. The memory of his high character and progressive outlook will remain a continuous source of inspiration to those who, in future, guide the destinies of the Society which he served so well.

Members of the Council stood in silence in tribute to the memory of Mr. Hewetson Nelson.

THE LATE MR. C. H. TRANMER

The Council received with deep regret intimation of the sudden death of Mr. C. H. Tranmer, who was Hon. Secretary of the Hull District Society from 1945 to 1949. The Council extended its sympathy to Mr. Tranmer's widow.

COUNCIL

Upon the motion of the President, seconded by Mr. Percy Toothill, the Council resolved unanimously that the following members be appointed to fill occasional vacancies on the Council under Article 48: Mr. Frank Sewell Bray, London; Mr. Andrew Brodie, Stoke-on-Trent; Mr. Wilfred Harcourt Fox, Northampton; Mr. William Henry Higginbotham, Sheffield; Mr. Walter Hindle Marsden, Blackburn.

REPORTS OF COMMITTEES

Reports were received from the Finance and General Purposes, Applications, Examination and Membership, District Societies and Parliamentary Committees and from the Board of Examiners. The Council also received the minutes of recent meetings of the South African Committees.

ACCOUNTANCY PRIZES

Contributions were approved of £10 10s. to the London Chamber of Commerce for a special accountancy prize, and of £10 10s. per annum to the City of London College for an accountancy prize.

CONFERENCE IN IRELAND, 1951

In response to an invitation from the Irish Branch, it was resolved that a Conference of the Society be held in Dublin on June 13, 14 and 15, 1951.

EXAMINATION CENTRE

It was reported that an additional examination centre would be opened in Liverpool for the May, 1950, and future examinations.

EXEMPTION FROM PRELIMINARY EXAMINATION

The Council decided that candidates holding the General Certificate of Education would be eligible for exemption from the Society's Preliminary Examination on the conditions set out on page 176 of this issue.

ANNUAL REPORT AND ACCOUNTS

The draft report and accounts for 1949 were approved.

RESIGNATIONS

A report was received of the following resignations of membership as from the dates indicated:

January 1, 1950:

Bateman, William (Fellow), Stockport.

Cooper, Charles William Frederick (Associate), Hale, Cheshire.

Green, Frederick Aspinall (Fellow), Haslingden.

Holmes, Herbert (Fellow), Pontefract.

Hustwick, Wade (Fellow), Bradford.

Noon, Alfred Ernest (Fellow), Liverpool.

Pepper, William Arnold (Associate), London.

Tompson, Frederick Arthur (Associate), Tunbridge Wells.

January 1, 1951:

Blasdale, Aubrey Askew (Associate), Birmingham.

Bridgwater, Eric (Associate), Birmingham.

Cooke, John Scarlett (Associate), Birmingham.

DEATHS

The Council received with regret a report of the death of each of the following members:

Atkinson, Arthur Stanley, M.B.E., M.A. (Associate), Belfast.

Gilbert, Leonard (Fellow), Nairobi, Kenya Colony.

Hemphill, Robert (Fellow), Johannesburg.

Howieson, Norman Percy (Associate), London.

Hyland, Eugene Philip (Associate), London.

Keens, Archibald Thomas (Fellow), London.

Mossford, Frank (Associate), Kidderminster.

Nelson, Charles Hewetson (Fellow), Wallasey.

Randall, Arthur John (Associate), Dinas Powis, Glamorgan.

Robinson, Joseph (Fellow), Croydon.

Semper, Cecil (Fellow), Liverpool.

Smith, Harold Louis Pottier (Associate), London.

Thies, William Herbert, M.B.E., D.C.M. (Associate), Shanklin.

Tranmer, Charles Hatfield, B.COM. (Fellow), Hull.

Windsor, Herbert Edwin (Fellow), Southsea.

EARLY ACCOUNTING RECORDS

Sir Hilary Jenkinson, Deputy Keeper of the Records, was the guest speaker at the Luncheon Meeting of the Incorporated Accountants' London and District Society, held on April 4.

Sir Hilary's address, entitled "Records of Accounting," is reproduced on pages 157-160 of this issue of Accountancy.

Sir Hilary was introduced by Mr. R. N. Barnett, F.S.A.A., Chairman of the District Society, who presided at the luncheon, and a speech of thanks was given by Mr. Best.

HUMANITY IN ADMINISTRATION

The annual dinner of the Incorporated Accountants' District Society of East Anglia was held at the Maid's Head Hotel, Norwich, on March 23. Mr. W. P. Gill, F.S.A.A. (President, East Anglian District Society), presided and was supported by the Lord Mayor of Norwich (Mr. A. E. Baines); the Sheriff of Norwich (Mr. A. E. Pummell); Mr. A. Stuart Allen, F.S.A.A. (President of the Society of the Incorporated Accountants) and Mr. I. A. F. Craig, O.B.E., B.A. (Secretary); The Right Reverend St. Barbe Holland (Dean of Norwich); the Mayor of Lowestoft; Mr. F. W. Gunn (President, Insurance Institute of Norwich); and representatives of other professional bodies.

Mr. F. Wadge, M.C., F.S.A.A., proposing a toast to the city of Norwich, said Norwich was rather like a cut diamond—it had so many facets. Historically Norwich had its roots in the past; it had great charm and there was something about it that was immensely satisfying. As a city of commerce Norwich still held quite a high place. Its friendliness was one of the features which a stranger noticed most of all.

The Sheriff of Norwich (Mr. A. E. Pummell), responding, said that throughout the ages the people of the city had always demonstrated an independent spirit and had been in the forefront of the struggles for improvement and freedom.

The Lord Mayor of Norwich (Mr. A. E. Baines), proposing the toast of the Society of Incorporated Accountants, said he thought members of the Society did a wonderful job of work and he was pleased they took such an interest in the educational side of their profession. He considered it most important that they should do all they could to help and encourage the young people to take their examinations and qualify as Incorporated Accountants. It was his experience that they would respond, and without them he did not see how the country could get out of its difficulties.

Mr. A. Stuart Allen (President of the Society of Incorporated Accountants), in his reply, referred to the three years he spent at Norwich before the first world war and went on to compare existing conditions with those of that time. Admittedly our present vulnerability had its roots in the nineteenth century, when the population of these islands expanded far beyond the food-producing capacity of our agricultural industry. In these days, if there was not war neither was there peace; our overseas resources had largely disappeared; we suffered an adverse balance of trade, particularly with the American continent, from which we drew so large a part of our essential food; and we knew, by bitter experience, that a contract for supply from overseas might well prove to be but a point of departure for ever more exacting demands, against which we had no effective remedy.

Our relations with foreign suppliers could only be improved by a steady process of rebuilding our national prestige. At home we had to strive to improve both the quality and the quantity of our products, so as to meet the increasing competition which a seller's market always involved.

This latter problem was largely a matter of finding and applying the appropriate stimulus at the point where it would be most effective. This was a matter of psychology, although he preferred to call it a human problem. One of the most serious issues which faced the nation to-day was the need to introduce, into many big and beautiful plans, an adequate element of humanity in administration, which alone could make them acceptable to the individuals whose particular needs they must serve if they were to win any general measure of acceptance.

Strong official support was being given to the British Institute of Management, which was designed to co-ordinate the activities of all who could contribute, by way of advice and assistance, to the problems confronting British commerce and industry. The purpose was to form local management associations throughout the country, and he felt these associations would afford opportunities for the ventilation of ideas designed to promote not merely industrial efficiency but also the improvement of relations between management and workpeople. A related matter was that the Anglo-American Council on Productivity was sending a mission to the United States to study works accounting and costs control methods. The Society was taking an active interest in the project.

Mr. Allen spoke of the success of Mr. Alexander Garrett's visit to the Australian Congress on Accounting and to New Zealand and South Africa.

The Society had submitted both written and verbal evidence to the committee on Taxation of Trading Profits now sitting under the chairmanship of Mr. Millard Tucker, K.C. One of the major changes proposed was the substitution of the profits of the actual year of assessment for the profits of the preceding year. Cynics suggested that even if this was approved in principle, it was unlikely to be given statutory effect until the present downward trend in industrial profits had been reversed.

Mr. Allen extended thanks to Mr. Gill and the members of the District Society Committee for their hospitality, and paid tribute to Mr. K. T. Boardman and Mr. H. P. Gowen. Mr. Gowen was the first Vice-President of the District Society when it was formed in 1929; he served as President from 1932 to 1935 and again in 1947. The Society was also indebted to Mr. C. H. Sutton for the time and effort he devoted to the interests of the District Society as Honorary Secretary.

Mr. W. P. Gill, F.S.A.A. (President of the East Anglian Society) stressed the importance of the courses provided for students. He urged members to encourage students in every way to attend, for he was certain they would benefit now and in later years.

The toast of the guests was proposed by Mr. H. P. Gowen, O.B.E., J.P., F.S.A.A. The Dean of Norwich and Mr. F. W. Gunn (President, Insurance Institute of Norwich) responded.

THE MISSION OF PROFESSIONAL ACCOUNTANTS

THE INCORPORATED ACCOUNTANTS' SOUTH Wales and Monmouthshire District Society held a dinner at the Park Hotel, Cardiff, on March 30. Mr. R. R. Davies, F.S.A.A., President of the District Society, presided, and the company included the Deputy Lord Mayor of Cardiff (Councillor W. H. J. Muston) and the Deputy Lady Mayoress; the Deputy Mayor of Newport (Councillor W. Trevor Vaughan) and the Deputy Mayoress; the High Sheriff for the County of Monmouth (Col. R. C. L. Thomas, M.C., D.L., J.P., F.S.A.A.) and Mrs. Thomas; Mr. A. Stuart Allen (President of the Society of Incorporated Accountants) and Mr. I. A. F. Craig, O.B.E., B.A. (Secretary); Mr. Denis H. Morgan, M.B.E., F.C.A. (Location of Industry Officer for Wales, Board of Trade, and President of the South Wales and Monmouthshire Society of Chartered Accountants); Mr. Mervyn Bell, F.S.A.A. (President of the Society of Incorporated Accountants in Ireland); Mr. T. Mervyn Jones (Chairman, Wales Gas Board); Mr. T. Leonard (President of the Newport Chamber of Commerce); Mr. Lidgett Gibbs (Chairman of the Cardiff Stock Exchange); Mr. E. Gavine, Chief Inspector of Taxes; and other representatives of the professions, education and commerce.

Mr. J. D. R. Jones, Vice-President of the District Society, proposing the toast of "Prosperity to South Wales and Monmouthshire," deplored the inactivity in the docks.

The Deputy Lord Mayor of Cardiff (Councillor W. H. J. Muston) said in reply that the Council were endeavouring to bring more trade to them.

Mr. Denis H. Morgan, M.B.E., F.C.A. (President of the South Wales and Monmouthshire Society of Chartered Accountants) proposed the toast of the Society of Incorporated Accountants. He said the profession was going through a trial period, and life was certainly not made easy either by changes of legislation or by the people in Government departments. As one who had left the practising side of the profession he realised that they who were in industry owed to the practising men a debt. It was from them that the new generation in the profession would come into being. The tendency was for their young people to be in industry and not in practice, and if that went too far it might result in a very dangerous situation.

But if practising accountants were in a disadvantageous position financially, they stood in an advantageous position spiritually. At the present time of regimentation they had a tremendous mission. They were in touch with the people who came to them for advice, and stood in a relationship to them which other people could not claim. At the present time, when this world was requiring that human relationship, the profession could do a grand service.

Mr. A. Stuart Allen, F.S.A.A. (President of the Society of Incorporated Accountants), in responding, expressed his personal conviction that all accountants by reason of their contacts with all sections of the community were particularly suited to advise on human problems which were such an important factor in industry to-day. Accountants could do much to ensure that the proper balance should be maintained between plans and the human needs of the individuals by whom alone those plans could be brought to fruition.

It was desirable that everyone should realise that equality of political privilege must almost inevitably carry as a consequence considerable pressure for equality in other forms of privilege, of which wealth was probably the most notable. As long as initiative and enterprise were allowed to exist in a world far from perfect, so long would the rewards create inequalities of wealth, and in consequence the logical conclusion was that in a welfare State taxation must be relied upon to bring about the equalisation of wealth which seemed to be one of the principles inherent in its establishment. This should be realised by all members of the community whatever their political creed.

Mr. Allen aroused great interest when he said that the Society would be able to re-occupy Incorporated Accountants' Hall within the next year. It would be a relief to the Society and to the staff, who had for so long endured the discomforts of temporary premises. But the proposed extension had not been sanctioned, and therefore even after the return the staff would still suffer from cramped conditions.

He complimented the Honorary Secretary of the District Society, Mr. Tudor Davies, upon the arrangements he had made for the dinner.

Mr. Richard R. Davies, F.S.A.A. (President of the South Wales Society) proposed the toast of the guests. They were glad to welcome Mr. Mervyn Bell, President of the Irish Branch, who had travelled from Dublin for the occasion. An Irish accountant looked unlike an English accountant. The Irish accountant was carefree and without troubles, for in his country income

tax was only 6s. 6d. in the £, and he had never heard of directors' allowances!

Respondents to the toast to the guests were Mr. Bell, who said an Irishman was always expected to tell a good yarn and proceeded to do so, and Mr. Eric Gavine, Chief Inspector of Taxes in Cardiff, who expressed appreciation for assistance given to his department by Incorporated Accountants.

During the afternoon visiting officers of the Society were received by the Lord Mayor of Cardiff (Ald. T. J. Kerrigan) in his parlour and entertained to tea.

DISTRICT SOCIETIES AND BRANCHES

SCOTTISH BRANCH

THE COUNCIL OF THE SCOTTISH INSTITUTE OF Accountants, the Scottish Branch of the Society, met in Glasgow on February 16 and April 4. Mr. D. R. Matheson, LL.B., Edinburgh, presided at both meetings.

The Secretary, Mr. James Paterson, reported a considerable increase in the number of inquiries in connection with the examinations of the Society.

At the meeting on April 4 Mr. P. G. S. Ritchie, F.S.A.A., Glasgow, was elected President of the Scottish Branch. Mr. Robert Fraser, F.S.A.A., Glasgow, Mr. Festus Moffat, O.B.E., J.P., Falkirk, and Mr. John Stewart, F.S.A.A., Grangemouth, were elected Vice-Presidents for the ensuing year.

ANNUAL MEETING

The seventieth annual meeting of the Scottish Institute of Accountants, the Scottish Branch of the Society, was held in Glasgow on April 4, Mr. D. R. Matheson, LL.B., Edinburgh, in the chair.

In moving the adoption of the report and accounts Mr. Matheson referred to the retiral of Mr. Garrett, whose work for the Society and for the accountancy profession had been specially recognised by his election as an honorary member.

Sympathetic reference was made to the death of Mr. R. T. Dunlop, a former President of the Scottish Branch.

They were all greatly pleased at the honour of Knighthood conferred on Mr. John D. Imrie, a member of the Branch Council, and on Mr. Richard Yeabsley, a member of the London Council.

The dinner on December 1 to celebrate the fiftieth anniversary of the affiliation of the Scottish Institute of Accountants with the Society had been most successful.

The motion was seconded by Mr. P. G. S. Ritchie and agreed to.

The retiring members of Council were re-elected. Mr. John Cecil Gibb, F.S.A.A., Glasgow, was elected to fill the vacancy caused by the death of Mr. R. T. Dunlop.

The auditors, Mr. James A. Mowat, Glasgow, and Mr. John Aitchison, Rutherglen, were re-elected.

The President and Secretary were elected representatives of the Scottish Branch on the London Council.

SOUTH AFRICAN BRANCHES

ANNUAL REPORT

THE COMMITTEES OF THE THREE BRANCHES OF the Society in South Africa present their report for the year 1949.

The membership at December 31, 1949, was: Western Branch 136, Northern 309, Eastern 75; total 520.

The deaths are reported with regret of Mr. B. A. Key, F.S.A.A., and Mr. F. C. McConnell, F.S.A.A., both of Johannesburg. Both had been chairman of the Northern Branch and had given valuable service on the Committee.

The Branches congratulate the Joint Council of the South African Chartered Accountant Societies on their excellent memorandum of evidence to the Income Tax Commission. Many of those responsible for its preparation are also Incorporated Accountants. Mr. R. Steyn, F.S.A.A., and Mr. A. S. Aiken, F.S.A.A., are respectively chairman and member of the Commission.

During the year contact with the Society's head office was strengthened by the visit to London of Mr. Alan R. Butcher, Honorary Secretary of the Eastern Branch. Mr. Butcher had the privilege of attending a meeting of the Council on July 19, 1949.

Branch committees have worked in close collaboration with each other and with the four South African Provincial Societies and the Rhodesia Society of Accountants. Congratulations are extended to the members elected to the following offices: Mr. J. C. Macintosh, F.S.A.A., and Mr. G. E. Noyce, F.S.A.A., chairman and vice-chairman respectively of the Joint Council of the Societies of Chartered Accountants of South Africa; Mr. H. C. Galbraith, F.S.A.A., and Mr. K. L. Smith, M.A., F.S.A.A., chairman and vice-chairman of the South African Accountants' Societies General Examining Board; Mr. R. B. Sinclair, F.S.A.A., President, the Transvaal Society of Accountants; Mr. H. V. Fraser, A.S.A.A., President, the Rhodesia Society of Accountants; Mr. R. H. Button, F.S.A.A., chairman, the Natal Society of Accountants; Mr. S. L. Deanes, M.C., F.S.A.A., President, the Society of Accountants and Auditors in the Orange Free State.

In October, 1949, the Northern Branch Committee was entertained to lunch by members in Pretoria, after a visit to the Iscor Steel Works. The annual social gathering in November was attended by 134 members and clerks, and included tennis and golf tournaments.

LONDON STUDENTS' SOCIETY

AT THE ANNUAL GENERAL MEETING HELD ON April 17 Mr. A. V. Hussey gave a short address on retiring from the office of President, which he had held for three years. He welcomed to the presidency Mr. Frederick R. Witty, who had been Vice-President for three years. Mr. Hussey said that during his term of office there had been a number of innovations, including the pre-examination course at King's College, London, the public speaking courses and the plans for a residential course at Ashridge at the end of April. For ably arranging these courses and other activities of the Students' Society the members' thanks were due to the staff engaged at headquarters, and in particular to Mr. C. Evan-Jones, whose work since his appointment four years earlier had been invaluable.

PRE-EXAMINATION COURSE AT ASHRIDGE

A residential pre-examination course was held at Ashridge College, Berkhamsted, Herts, from April 24 to 28.

Admiral Sir Denis Boyd, K.C.B., C.B.E., D.S.C., Principal of Ashridge, welcomed the students in a short address. During the ensuing five days twenty-three meetings were held for lectures and discussions on examination subjects and matters of current interest. The lecturers were Mr. W. W. Bigg, F.C.A., F.S.A.A., Mr. O. Griffiths, M.A., LL.B., Barrister-at-Law, Mr. A. E. Langton, LL.B., F.C.A., F.S.A.A., Mr. L. T. Little, B.SC. (ECON.), Mr. J. D. Nightingirl, A.S.A.A., Mr. T. W. South, Barrister-at-Law, Mr. Francis Whitmore, City Editor of the *Daily Telegraph*, Mr. R. Glynne Williams, F.C.A., and Mr. H. A. R. J. Wilson, F.C.A., F.S.A.A.

A short service was held in the Ashridge Chapel each morning, and tennis and football were played in the afternoons.

The thanks of the Students' Society and of all who attended the course are due to the lecturers and to the governors of Ashridge.

MANCHESTER

A RESIDENTIAL STUDENTS' REFRESHER Course will be held at Hulme Hall, Oxford Place, Manchester, from Friday afternoon, September 8, to Monday morning, September 11. Students of neighbouring District Societies are invited to attend, but they should apply through their own District Society. The charge is expected to be £2 2s. Accommodation will be available for both men and women students.

The course will be divided into two sections, for Intermediate and Final candidates. In each section papers will be given by specialised lecturers on all the principal examination subjects. An additional feature will be a lecture demonstration on machine accounting.

NOTTINGHAM, DERBY AND LINCOLN

Mr. C. M. Foxon, F.S.A.A., Vernon House, Friar Lane, Nottingham, has been appointed Honorary Secretary in succession to Mr. J. B. Carter, F.S.A.A.

PERSONAL NOTES

Sir Frederick J. Alban, C.B.E., J.P., F.S.A.A., has been reappointed chairman of the Welsh Regional Hospital Board for the ensuing three years.

Messrs. W. Claridge & Co., Bradford, announce that Mr. T. Hudson has retired from the partnership. The practice is being continued by the remaining three partners.

Messrs. Aston, Wilde & Co., Chartered Accountants, Birmingham, have admitted as a partner Mr. W. Parker, A.C.A., A.S.A.A., who has been a senior member of their staff for many years.

The partnership between Mr. C. A. Milford, Mr. G. P. Rumney and Mr. F. A. Astley, practising as Milford & Co. at Blackburn and Settle, has been dissolved by mutual consent. The practice at Blackburn will be carried on by Mr. Astley under the style of Frank A. Astley, Incorporated Accountant. Mr. Milford and Mr. Rumney are continuing to practise at Settle under the name of Milford & Co., Incorporated Accountants.

Messrs. Tessier, Son & Randall, Incorporated Accountants, Purley, have taken Mr. J. C. A. Laundy, A.S.A.A., into partnership.

Mr. A. W. Pate, A.S.A.A., has commenced public practice in partnership with Mr. R. B. T. Greenhill, under the style of Greenhill, Pate & Co., at 42, Springfield Road, King's Heath, Birmingham, 14.

Mr. M. N. I. Sambamurti, B.A., F.S.A.A., has ceased public practice on being appointed by the Government of India an accountant member of the Income Tax Appellate Tribunal.

Messrs. B. de V. Hardcastle, Burton & Co., Incorporated Accountants, of London, E.C.2, and Northwood Hills, Middlesex, announce that Mr. C. B. Hardcastle, A.S.A.A., has been admitted as a partner.

Mr. J. Lewin, F.S.A.A., hitherto practising as Lewin, Leaf & Co., 28, Maddox Street, London, W.1, has admitted to partnership Mr. Ernest Walton, A.S.A.A., who has been associated with him for a number of years. The firm name is now Lewin, Leaf & Walton, Incorporated Accountants.

Messrs. Martin, Farlow & Co., Incorporated Accountants, Kingsley Hotel, London, W.C.1, announce that Mr. Peter Eric Huber, A.S.A.A., and Mr. Dennis Anthony Thornley, A.C.A., A.S.A.A., who have both been associated with the firm for many years, have been admitted to partnership. The name of the firm remains unchanged.

Messrs. Hare Wilson & Co., Incorporated Accountants, of Hillingdon, Middlesex, have admitted as a partner Mr. Raymond Arthur Deaves, A.S.A.A., a senior member of their staff. The style of the firm will remain unchanged.

Mr. R. D. Meeser, M.C., Incorporated Accountant, is now practising in Johannesburg under the name of R. D. Meeser & Co. Mr. C. C. McInnes, who was previously in partnership with him in the firm of Meeser, Sutherland & McInnes, is practising on his own account in Potchefstroom.

Messrs. Nicholson, Beecroft & Co., Chartered Accountants, London, E.C.2, announce that Mr. P. L. Oliver, A.C.A., has been admitted to partnership.

REMOVALS

Messrs. Bartfield & Co., Incorporated Accountants, announce that their London office is now at 73-75, Mortimer Street, W.1. Telephone: Museum 0329.

Mr. R. W. Dyson, Incorporated Accountant, has removed his office to 4, Hibson Road, Nelson.

Mr. J. H. Worsley, Incorporated Accountant, advises us that his address is now 21, St. James' Row, Burnley.

OBITUARY

Charles Hatfield Tranmer

We deeply regret to report that Mr. Charles H. Tranmer, B.COM., F.S.A.A., Hull, was killed in a road accident on March 27. Mr. Tranmer was 41 years of age. He became a member of the Society of Incorporated Accountants in 1930, after serving his articles with Mr. C. W. Preston, F.S.A.A., and two years later was admitted to partnership in the firm of Preston, Son and Tranmer. At the time of his death he was senior partner in Messrs. Tranmer and Raine, Incorporated Accountants.

Mr. Tranmer recently resigned the office of Honorary Secretary of the Incorporated Accountants' Hull and District Society, which he had held for four years. He was deeply interested in the welfare of the Society, and particularly of its students, to whom he was known as an able and lucid teacher. His death occurred on the homeward journey after the week-end students' course organised by the Newcastle-upon-Tyne Society at Durham University, where he was one of the lecturers.

The funeral took place on March 31 at Hallgate Methodist Church, Cottingham, where Mr. Tranmer was organist, choirmaster, and secretary to the trustees. The parent Society and the Hull and District Society were represented by the President of the Hull District Society, Mr. Stanley King, F.S.A.A., and a number of other members and students attended, together with representatives of numerous commercial, professional and educational bodies and Inspectors of Taxes.

We have received the following appreciation from a member of the committee of the Hull and District Society:

Charles Tranmer had a personality very difficult to translate into cold print. He had a boyish outlook on life and a great sense of humour, and treated his own outsize physique as a huge joke. He was a good musician and found a very satisfying outlet for his abundant energy in his leisure occupations as organist and choirmaster. He was proud of his family and of his home which were, for him, the restful haven from which all his activities radiated. His powers of concentration were amazing: he possessed the gift of being able to detach himself from his immediate surroundings and perhaps as an onlooker saw more of the game than most.

He enjoyed life but he was also a hard worker; his patience seemed inexhaustible, and the more difficult the problem the more he liked to worry at it until he reached a solution. His knowledge of taxation was profound, and when complimented he would modestly reply, "Well, I always study every section of each Income Tax or Finance Act as it appears, to try and find out what it really means." Inspectors of Taxes speak highly of his ability and his innate fairness; and students, clients and colleagues alike will miss his happy personality and sound practical advice.

Perhaps his philosophy of life might be summed up as "Work, music, home, work and more work." He had a great future before him if he had been spared, and certainly all those with whom Charles Tranmer came in contact are the richer for knowing him and the poorer for his loss.